

CALCUTTA UNIVERSITY
Advanced Accountancy

Questions With Full Answers.

(For B. Com. Students)

BY

Chakraborty & Chakraborty.

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1948

Q. 1. *Receipts and payments Account for the year ended December 1947*

Opening Balance :		Rs.
Cash in hand	Rs. 400 for 1948)	6,000
Balance at Bank		540
Subscriptions :		Telephone charges 540
1946	500	Electric charges 250
1947	20,000	Stamp and stationary 600
1948	750	Travelling 150
Hall Rent	1,250	Meeting Expenses 500
Interest on securities	1,000	Rent 5,400
Donations	10,000	Library 3,000
Telephone receipts	50	Donation of Political Agitation 5,000
		Closing Balance cash in hand 310
		Balance at Bank 32,600

Rs. 54,350

Rs. 54,350

The following additional is available :—(a) The Association holds 3% G. P. Notes amounting to Rs. 40,000. (b) The Library Account stood at Rs. 20,000 on 1st January, 1947. (c) The donations of Rs. 10,000 are to be founded for a prize to be awarded by the Association.

(d) The outstanding liabilities are :

(i) Rent Rs. 300 ; (ii) Printers bill Rs. 150.

You are required to prepare an Income and Expenditure Account for the year ended 31st December, 1947, and a Balance sheet at that date.

Ans. Opening position may be shown by the statement of affairs as cast below.

Statement of Affairs (opening)

<i>Liabilities</i>	<i>Assets</i>
Capital Fund	Cash in hand 250
being accumulated	Cash at Bank 20550
excess of income	Investment 40,000
over expenditure	Library 20,000
81300	Outstanding Subscription 500
Total Rs. 81300	Total Rs. 81300

Dr. Income & Expenditure Account.....		Cr.	
Expenses	Rs.	Incomes	Rs.
To Establishment Expenses 6000		By Subscription 20,000	
Less—Prepaid 400		„ Hall Rent 1250	
	5600	„ Interest on Securities—1000	
„ Rents 5400		Add-Interest accrued— 200	
Add Rent outs. 300	5700		1200
„ Meeting Expenses 500			
„ Travelling Expenses 150			
„ Donation for Public agitation 5000			
„ Printing and Stationery 600			
Add Outstanding charges 150	750		
„ Telephone charges 540			
Less-Receipts on this account 50	490		
	250		
„ Electric charges 4,010			
„ Balance—excess of income over expenses	22,450		22,450

Balance Sheet
as at 31st. December, 1947

Liabilities & Funds		Assets	
Capital Fund (1.1.47) 81300		Cash in hand 310	
Add-Current year's excess of income over expenditure— 4010		Cash at Bank 32600	
	85,310	Investment 40,000	
Prize Fund— 10,000		Library 20,000	
Liability for expenses: Rent (outstanding) 300		Add-Addition to library 3000	
Printing & Stationery (outstanding) 150			23000
	450	Prepaid Expenses 400	
Subscription received in advance— 750		Accrued Interest 200	
Total Rs. 96,510		Total Rs. 96,510	

Q. 2. The following errors were discovered in the books of M. Tarafdar after his final accounts were prepared.

You are required to pass adjusting Journal entries and prepare a Profit and Loss Adjustment Account for the year ended 31st March, 1948.

- (a) Cash Discount—Rs. 12 was debited to the Sales A/c.
 (b) A credit sale of Rs. 150 to A. D. was debited to his account but was not credited in the Sales Account.
 (c) Stationery purchased for Rs. 175 was debited to purchase Account.
 (d) A second hand Typewriter purchased for Rs. 150 was debited to Plant and Machinery Account.
 (e) A credit purchase of Rs. 65 was posted to the credit of the creditor's A/c. as Rs. 56.
 (f) Repairs to Motor Car amounting to Rs. 100 was debited to Motors Car A/c.

Ans. (a) Since the net Profit has not been affected, no entry need be passed at this stage to *rectify* the error.

(b) The omission to credit the Sales account by Rs. 150 resulted in indicating the profit less than the actual by Rs. 150/-. The effect of this omission will now be rectified by passing a journal entry as follows :

Suspense A/c. Dr. Rs. 150

To Profit & Loss Adj. A/c Rs. 150.

(c) Since the omission did not affect the ascertainment of net profit for the period no entry need be passed to rectify the error which is of simply the nature of Errors of Principle.

(d) The effect of erroneous entry was that the Plant and Machinery Account had unduly been debited while the debit should have been given to office Typewriters Account. The effects of the error may now be rectified by passing an entry as follows and posting the relative accounts accordingly.

Office Typewriters A/c Dr. Rs. 150.

To Plant & Machinery A/c Rs. 150

(Erroneous debit to Plant and Mach. account being written back).

(e) The effect of the error was that the creditor's account had been shown less than the actual by Rs. 9/- (Rs. 65—56). This may now be adjusted by passing an entry as follows :

Suspense A/c Dr Rs. 9/-

To Creditor's A/c Rs. 9/-.

(f) Because of this error in recording the transaction the profit indicated by the P & L Account was less than the actual by Rs. 100 which may now be adjusted by passing a journal entry as shown below.

Profit & Loss Adjustment A/c Dr. Rs. 100

To Motor Car A/c Rs. 100.

(Being the require to motor car wrongly debited to Motor Car A/c adjusted).

Profit & Loss Adjustment
as would appear after carrying
out the rectifications suggested above.

	Rs.		Rs.
To Motor Car A/c	100	By Suspense A/c	150
" balance—			
Profit on Adjustment			
Transferred to Capital	50		
	—		
Total	150	Total	150
	—		

Q. 3. (a) Below you are given the Trading Accounts of Mr. B. C. Chatterjee, a sole trader, for two successive years. :

1946

	Rs.		Rs.
Stock	7,500	Sales (Net)	80,000
Purchases	60,000	Stock	10,000
Direct charges	2,500		
Gross Profit	20,000		
	—		
Rs. 90,000	—	Rs. 90,000	—

1947

	Rs.		Rs.
Stock	10,000	Sales (Net)	60,000
Purchases	50,000	Stock	9,000
Direct charges	3,000		
Gross profit	6,000		
	—		
Rs. 69,000	—	Rs. 69,000	—

Discuss the probable causes for the variation in percentages of Gross Profit on Turn over.

(b) What do you understand by :

(i) Annuity system of Depreciation, (ii) Depreciation Fund method ?

Ans. For a comparison of the profits for the two years those are expressed as a percent of the turnover in the manner indicated below.

1946. Turnover is 80,000.
 Gross Profit is 20,000.

So the gross Profit is :

$$\frac{20,000}{80,000} \times 100 = 25\% \text{ of Turnover.}$$

1947. Turnover is 60,000.
 Gross Profit is 6,000.

So the gross Profit is :—

$$\frac{6000}{60,000} \times 100 = 10\% \text{ of Turnover.}$$

Apparently there is the sharp decrease in the percentage of gross profit in the year 1947 as compared to that of 1946. This decrease in the percentage may be due to various reasons the chief of which may be summarised as follows :—

(i) The obvious reason for the sharp decrease in the percentage of Gross Profit in the year 1947 may be attributed to Sale Price having been gone down. In the previous year goods costing Rs. 57,500 had been sold for 80,000 whereas in the year under review goods worth Rs. 51,000 were sold for Rs. 60,000. The lowering of Sales Price may however be due to various factors, the chief of which is depression in trade.

(ii) Under valuation of closing stock and pilferage of stock may also be the factor responsible for decrease in the percentage of Gross Profit.

(iii) Decrease in percentage of gross profit may be due to errors of omission in recording the sales or error in the shape of double recording of purchase and such other matters. But these cannot strictly be considered as factors responsible for decrease in the percentage of gross profit since these errors are likely to be brought in accounts on scrutiny and audit of the accounts. No doubt the auditors or the person entrusted with the work of scrutiny will concentrate on verification of sales ledger. Purchase ledger, Stock sheets in the face of this sharp decrease in the percentage of gross profit.

(b) (i) **Annuity system of depreciation** :—Acquisition of an asset involves a lay out of capital and utilisation of that and thereby to bring down the value of the same to zero at the end of its estimated life will naturally mean that a certain portion of capital i. e. the amount of capital spent in acquiring the asset has been eaten up. Practically this capital along with the amount of interest which the same would have earned had not been so employed in acquiring the asset is exhausted in course of the period for which the asset is estimated to run. Now for purposes of calculating depreciation on such assets the capital employed as well as the interest thereon are both taken into account. The system as explained is known as *Annuity Method of Depreciation*. Under this method an interest at a fixed rate is charged on the asset each year and thereafter the depreciation is calculated at the rate ascertained for such purpose.

(b) (ii) Creation of a sinking fund for purposes of replacement of wasting Assets is another method of providing for depreciation. The annual instalment of such a fund is considered as a charge against profit and is accordingly debited to P & L

Account. The annual instalments along with the interest accumulated thereon just equalises the value of the asset at the end of the stipulated period and is finally transferred to that asset account in question so as to eliminate the balance standing to the debit of the same. The amount equivalent to the accumulated balance in the fund is utilised in acquiring the asset afresh. This method is known as *Depreciation fund Method*.

Q. 4. The Balance sheet T. D. and H. as at 31st December, 1947 is given below :—

	Rs.		Rs.
Sundry creditors	20,000	Freehold Premises	50,000
Capital A/cs :		Machinery	15,000
T. 30,000		Furniture	2,000
D. 40,000		Stock	20,000
H. 50,000	1,20,000	Sundry Debtors	20,000
		Less Reserve	2,000
			18,000
		Closing Balance at Bank	35,000
	Rs. 1,40,000		Rs. 1,40,000

D and H retire from the business and T takes it over. The liabilities are taken over the T and the following revaluations of the Assets are made before they are taken over by T.

Freehold Premises, Rs. 75,000. Machinery and Furniture to be depreciated by 10% and 20% respectively. Reserve for Bad Debts to be raised to 15%. Goodwill of the firm to be valued at Rs. 20,000. Stock is to be reduced by $7\frac{1}{2}\%$. The partner were sharing profit as T $\frac{3}{5}$ D $\frac{1}{5}$, and H $\frac{1}{5}$.

Assuming T introduces necessary cash to pay off D and H and are required to close the books of the firm.

Ans. Journal Entries to record the revaluation of assets will be as follows :—

(1) P & L Adjustment A/c Dr Rs. 4,400

To Machinery A/c	1500
" Furniture A/c	400
" Reserve for B. D. A/c	1000
" Stock A/c	1500

Rs. 4,400

(Revaluation of assets being given effect to).

(2) Goodwill Account Dr. Rs. 20,000.

To Capital A/c—T	Rs. 12,000
" D	Rs. 4,000
" H	Rs. 4,000

(Goodwill being raised in firm's books).

(3) Freehold Premises A/c Dr Rs. 25000.

To P & L Adjustment A/c Rs. 25000

(Appreciation in the value of Premises being taken into account).

(4) Profit & Loss Adjustment A/c Dr Rs. 20,600

To Capital A/c T 12,360

„ Capital A/c D 4,120

„ Capital A/c H 4,120

(Profit on revaluation being credit to partners' Capital Accounts).

After the revaluation being given effect to be position of the assets and liabilities of the firm will be as follows :—

<i>Liabilities</i>		<i>Assets</i>	
Sundry Creditors	20,000	Premises	75,000
Reserve for Bad Debts	3,000	Machinery	18,500
Capitals :		Furniture	1,600
T	54,360	Stock	18,500
D	48,120	Debtors	20,000
H	58,120	Goodwill	20,000
	1,60,600	Closing balance of	
		Cash in hand	
		and at Bank	35,000
			1,83,600
Purchase Consideration :—			
Assets taken over			1,83,600
Less : Sundry creditors	20,000		
Reserve for Bad Debts	3,000		
			23,000
			1,60,600

On T's taking over the business the recording of the transactions will be as noted here under :—

Journal Entries

(1) Realisation A/c Dr Rs. 1,83,600.

To Sundry Assets A/c Rs. 1,83,600.

(Being the transfer of Sundry assets to Realisation Account).

(2) Sundry creditor's A/c Dr Rs. 20,000.

Reserve for Bad debts A/c Dr. Rs. 3000.

To Realisation A/c Rs. 23000.

(Being the transfer of liabilities to Realisation Account).

(3) T's Capital A/c Dr. Rs. 1,60,600.

To Realisation A/c Rs. 1,60,600.

(Being the business taken over by T).

- (4) Bank A/c Dr. Rs. 1,06,240.
 To T's Capital A/c. Rs. 1,06,240.
 (Amount being brought in by T to pay off D & H).
- (5) D's Capital A/c Dr. Rs. 48,120.
 H's Capital A/c Dr. Rs. 58,120
 To Bank A/c Rs. 1,06,240.
 (Being the money paid off to D & H).

Q. 5. What are the requirements of Indian companies Act, 1936 regarding :—

- (a) Payment of Interest out of Capital during construction,
- (b) Issue of shares at a discount and
- (c) Issue of Redeemable Preference shares ?

Ans. (a) Section 107 of Indian Companies Act, 1936 as replaced by Section 258 of the Act of 1956 provides that :

In the event of shares being issued by a company for the purpose of raising money to defray the expenses of the construction of any works, building, plant requiring a lengthened period for constructional work, the company may pay interest on so much of that share capital as is for the time being paid up for the period by changing the same to capital as part of the cost of construction provided :

(i) The payment is authorised by the Articles of the Company or by a special resolution and covered by a prior sanction of the Central Government.

(ii) The payment is only for such period as may be determined by the Central Government in any case not exceeding the half year succeeding the half year in which the constructional work is completed.

(iii) The rate of interest does not exceed 4% per annum.

(b) After the amendment of Company's Act in 1936 issue of shares at a discount is permissible provided.

(i) The issue must be authorised by a resolution passed in General Meeting of the Company and the issue is sanctioned by the court.

(ii) At least one year must have passed at the date of issue since the date on which the Company was entitled to commence business.

(iii) The Shares are issued within six months after the date on which the issue of shares at a discount is sanctioned by the court or within such extended time as allowed by the court.

(iv) The resolution authorising the issue specifies the maximum rate of discount which should not however in any case exceed 10%.

(c) The requirements of the law guiding issue of Redeemable Preference shares are as follows :—

(i) The issue of such shares must be authorised by the Articles of the Company.

(ii) The shares so issued must be redeemable (a) out of profits (b) out of the proceeds of a fresh issue and (c) from Sales proceeds of any asset of the company.

(iii) Such shares are fully paid up before they become ripe for redemption.

Q. 6. X Co. Ltd. was incorporated with 10,000 shares divided as 2500 Preference Share of Rs 100 each.

5000 Ordinary Shares of Rs. 10 each.

and 25000 Deferred Shares of Re. 1 each.

The shares were offered to the public as follows :—

Preference Shares : Application Rs. 20

Allotment Rs. 50 plus (Rs. 5/- as premium)

Ordinary Shares : Application Rs. 2/8

Allotment Rs. 2-8 plus (Rs. 2-8 as premium)

Deferred Shares : Application -/4/-

Allotment -/12/-

2000 Preference Shares 4000 Ordinary Shares and all the Deferred Shares were applied for and necessary allotment was made.

The moneys received on account of shares were as follows :

Rs. 2,00,000 for Preference shares

Rs. 20,500 for Ordinary shares and

Rs. 2,000 for Deferred share.

Give necessary Journal and Cash Book entries for the transactions and the resultant Balance Sheet.

Ans.

Journal Entries

(1) Preference share Application A/c Dr Rs. 1,00,000.

To Pref. share Capital A/c Rs. 1,00,000.

(Application money in respect of 2000 Pref. shares of Rs. 100 each being transferred to share capital).

(2) Ordinary share Application A/c Dr Rs. 10 000.

To Ordinary Share Capital A/c Rs. 10,000.

(Application money in respect of 4000 ordinary shares of Rs. 10 each being transferred to ord. share capital).

(3) Deferred share Application A/c Dr Rs. 625.

To Deferred share Capital A/c Rs. 625.

(Application money in respect of 2500. Deferred shares of Re. 1 each being transferred to share capital).

(4) Preference Share Allotment A/c Dr Rs. 1,10,000.

To Pref. share Capital A/c Rs. 1,00,000.

„ Premium on issue.

of Pref. Shares A/c Rs. 10,000.

(Allotment money @ Rs. 50 plus Rs. 5 as premium being due in respect of 2000 shares of Rs. 100 each).

(5) Ordinary Share Allotment A/c Dr Rs. 20,000.

To Ord. Share Capital A/c Rs. 10,000

„ Premium on issue of
Ordinary Shares A/c Rs. 10,000

(Allotment money @ Rs. 2/8/- plus Rs. 2/8/- as premium
being due in respect of 4000 Ord. Shares of Rs. 10 each).

(6) Deferred Shares Allotment A/c Dr Rs. 1875.

To Deferred Share Capital A/c Rs. 1875.

(Allotment money @ -/12/- per share being due in respect
of 2500 shares of Re. 1 each).

Dr. Cash Book (Bank Column only) Cr.

	Rs.		Rs.
To Pref. Share			
Appl. A/c	1,00,000		
„ Ord. Share			
Appl. A/c	10,000		
„ Deferred Share			
Appl. A/c	625		
„ Pref. Share,			
Allot. A/c	1,00,000		
„ Ord. Share Allot. A/c	10,500		
„ Deferred Share			
Allotment A/c	1375	By Balance c/d.	2,22,500
	<u>2,22,500</u>		<u>2,22,500</u>

Ord. Share Allotment A/c

	Rs.		Rs.
To Ord. Share Capital		By Bank A/c	10,500
A/c	10,000	„ Calls-in-arrear A/c	9,500
„ Premium on issue of		(transferred)	
Share A/c	10,000		
	<u>20,000</u>		<u>20,000</u>

Pref. Share Allotment A/c

	Rs.		Rs.
To Pref. Share		By Bank A/c	1,00,000
Capital A/c	1,00,000	„ Calls-in-arrear A/c	10,000
„ Premium on issue		(transferred)	
Of Share A/c	10,000		
	<u>1,10,000</u>		<u>1,10,000</u>

Deferred Share Allotment A/c

	Rs.		Rs.
To Deferred Share Capital A/c	1975	By Bank A/c	1370
		„ Calls-in-arrear A/c (transferred)	500
	<u>1875</u>		<u>1875</u>

Balance Sheet as at.....

<i>Liabilities</i>	<i>Amount</i>	<i>Assets</i>	<i>Amount</i>
Authorised Capital	Rs.		Rs.
2500 Pref. Shares of Rs. 100 each	2,50,000	Cash at Bank	2,22,500
5000 Ord. Shares of Rs. 10 each	50,000		
2500 Deferred Shares of Re. 1 each	2,500		
	<u>3,02,500</u>		
Issued Capital			
2500 Pref. Shares of Rs. 100 each issued at a premium of Rs. 5 per share	2,50,000		
5000 Ord. Shares of Rs. 10 each issued at premium of Rs. 2/8/- per share	50,000		
2500 Deferred Shares of Re. 1 each issued at par.	2,500		
	<u>3,02,500</u>		
Subscribed & Called up Capital			
2000 Pref. Shares of Rs. 100 each fully called up	2,00,000		
4000 Ord. Shares of Rs. 10 each Rs. 5 per share being called up	20,000		
2,500 Deferred Shares of Re. 1 each fully called up	2,500		
	<u>2,22,500</u>		

Carried over—

Brought forward—		
Premium on issue of		
Shares.		
Pref. Shares	10,000	
Ord. Shares	10,000	
	<u>20,000</u>	
		2,42,500
Less :—Calls-in-arrear		
Pref. Shares	10,000	
Ord. Share	9,500	
Deferred Share	500	
	<u>20,000</u>	
		Total 2,22,500
		Total 2,22,500

[The amount in Calls-in-arrear A/c includes the outstanding in respect of Premium also and as such the same has been deducted after adding Premium to Called-up Capital.]

Q. 7. Shyambazar Chemical Company sends goods to its branch at Patna at 25% above cost. The following particulars are available from the Shyambazar books as on 31st December, 1947.

	Rs.		Rs.
Stock at Patna	5,000	Rent	150
(opening)			
Debtors Do.	4,000	Goods Returned	450
Petty cash in hand	25		
Goods supplied to		Salary	2,500
Branch	55,000		
Remittances from		Postage and Stationery	150
Branch Cash Sales	25,000		
Received from			
Debtors	20,000	Petty Cash expenses	35

The Branch expenses at Patna were met by cheques sent by the Head Office.

On 31st December, 1947 the stock at Patna amounted to Rs. 6,000, Debtors Rs. 30,000 and Petty cash balance to Rs. 15.

You are required to prepare the Patna Branch account at H. O. books give also the Journal entries necessary for arrived at the correct branch profit in H. O. books.

(b) What are :

(i) Remittances in transit (ii) Goods in transit ?

How are they delt with at the time of the preparation of final accounts and the combined Balance Sheet ?

Ans. Journal Entries

- (1) Patna Branch A/c Dr Rs. 9025
 To Branch Stock A/c Rs. 5000
 ,, Branch Debtors A/c Rs. 4000
 ,, Branch Petty cash A/c Rs. 25
 (Being the opening Stock, Debtors, Petty Cash transferred to Patna Branch Account).
- (2) Difference-in-value of Stock A/c Rs. 1000.
 To Patna Branch A/c Rs. 1000.
 (Being the difference in value of opening stock transferred to Patna Branch Account).
- (3) Goods Supplied to Branch A/c Dr Rs. 11000.
 To Patna Branch A/c Rs. 11000.
 (Being the difference in cost and invoice value of the goods supplied to branch now adjusted).
- (4) Patna Branch A/c Dr Rs. 90
 To Goods supplied to Patna Branch A/c Rs. 90.
 (Being the excess credit given to Patna Branch A/c due to the difference in cost and invoice value of the goods returned by the branch now adjusted).
- (5) Patna Branch A/c Dr Rs. 1200.
 To Difference in value of Stock A/c Rs. 1200.
 • (Being the difference of cost and invoice value of the closing Stock, as recorded being taken into account).
- (6) Branch Stock A/c Dr Rs. 6000
 Branch Debtor's A/c Dr Rs. 30,000
 Branch Petty Cash A/c Dr Rs. 15
 To Patna Branch A/c Rs. 36015.
 (Being the closing Stock at branch, closing debtors at Branch and closing cash at Branch taken into account).
- [Only the opening entries, closing entries and adjusting entries are furnished above. The transactions with the Branch are directly posted in the Branch Account].

Dr.	Patna Branch A/c		Cr.
	Rs.		Rs.
To Branch Stock A/c	5000	By Difference in value	
" " Debtors A/c	4000	of Stock A/c b/d	1000
" " Petty Cash A/c	25	" Goods Supplied to	
" Goods Supplied A/c	55000	Branch A/c	450
" Bank A/c		(Returns)	
Rent	150	" Cash (Sales)	25000
Salary	2500	" Cash (Br. Debtors)	20,000
Postage	150	" Goods Supplied to	
Petty Exp.	35	Branch A/c	11000
	2835	(Adjustment of value)	

Carried over—

Brought forward—

„ Goods Supplied to Patna Branch A/c	90	„ Branch Stock (closing)	6000
„ Difference in value of Stock (closing) A/c	120	„ Branch Debtors „	30,000
„ Profit & Loss A/c (balance transferred)	25325	„ Branch Petty Cash „	15
<hr/>			
93465			93465

(b) (i) It very often so happens that the branch remits amounts to Head Office near about the closing day and on remitting the amount duly debits Remittance to H. O. A/c or Head Office A/c. The Head Office on the other hand not having received the amount does not pass any entry to that effect and as a result the Branch Account in the H. O. books does not indicate the same balance as shown by the H. O. Account in Branch books. The Head Office however on receipt of the statement from the Branch records the effect of this remittance by passing an entry debiting Remittance in Transit A/c and crediting Remittance from Branch A/c or Branch Account as the case may be. The reverse position may also be found in cases where the Head Office remits amounts to Branch near about the date of closing which might not have received by the date of closing. In case of recording in Head Office books the Remittance in Transit Account will appear as an asset in the General Balance Sheet. In the ensuing period Cash Bank will be debited and the Remittance in Transit Account will be credited with the receipt of the remittance.

(b) (ii) The same thing may happen in respect of goods also. The H. O. might have sent goods to Branch near about the date of closing and posted the same to the credit of Goods sent out to Branch Account. The Branch on the other hand not having received the goods will not pass any entry to that effect and as a result the balance in the Branch Account in H. O. books will not correspond with that indicated by H. O. Account in Branch books. Naturally the Head Office will feel the necessity of making the balance in Branch Account agree with the balance indicated by Head Office Account in Branch books. This adjustment will be effected by passing an entry debiting "Goods in Transit Account" and crediting Branch Account. The item will appear as an asset in the Balance Sheet and on the next opening day the same will be written back by passing a reverse entry.

Q. 8. Chatterjee Company Ltd. took lease of a coal field for a period of 40 years from 1st Jan. 1943, on a royalty of 12 as. per ton of coal raised with a Dead rent Rs. 25,000 per annum with power to recoup short workings for a period of 5 years.

The output for the first five years was as follows :—

1st years 30,000 tons, 2nd year 22,000 tons. 3rd year 35,000 tons, 4th year 28,000 tons, 5th year 30,000 tons.

You are required to give the Dead Rent, short workings, and the Landlords accounts in the Ledger for five years.

Ans.		Dead Rent A/c	
Dr.			Cr.
	Rs.		Rs.
1st year		By Royalty A/c	22500
To Landlord's A/c	25000	„ Short workings A/c	2500
	25000		25000
2nd year		By Royalty A/c	16500
To Landlord's A/c	25000	„ Short workings A/c	8500
	25000		25000
4th year		By Royalty A/c	21000
To Landlord's A/c	25000	„ Short workings A/c	4000
	25000		25000
5th year		By Royalty A/c	22500
To Landlord's A/c	25000	„ Short workings A/c	2500
	25000		25000

Dr.		Royalty Account	
			Cr.
	Rs.		Rs.
1st year		By Trading A/c	
To Dead Rent A/c	22500	(transferred)	22500
2nd year		By Trading A/c	
To Dead Rent A/c	16500	(transferred)	16500
3rd year		By Trading A/c	
To Landlord's A/c	25000	(transferred)	26250
„ Short workings A/c	1250		26250
	26250		
4th year		By Trading A/c	21000
To Dead Rent A/c	21000	(transferred)	

Short Workings Account

	Rs.		Rs.
1st year		By Balance c/d	2500
To Dead Rent A/c	2500		<u>2500</u>
	2500		
2nd year		By Balance c/d	11000
To balance b/d	2500		<u>11000</u>
„ Dead Rent A/c	8500		11000
	11000		
3rd year		By Royalty A/c	1250
To balance b/d	11000	„ Balance c/d	9750
	11000		<u>11000</u>
4th year			
To balance b/d	9750	By Balance c/d	13750
„ Dead Rent A/c	4000		<u>13750</u>
	13750		13750
5th year			
To balance b/d	13750	By Balance c/d	16250
„ Dead Rent A/c	2500		<u>16250</u>
	16250		16250

[From the next year the Short working Account will gradually be written down by charging to P & L A/c].

Landlord's A/c

	Rs.		Rs.
1st year		By Dead Rent A/c	25000
To Bank A/c	25000		<u>25000</u>
2nd year		By Dead Rent A/c	25000
To Bank A/c	25000		<u>25000</u>
3rd year		By Royalty A/c	25000
To Bank A/c	25000		<u>25000</u>
4th year		By Dead Rent A/c	25000
To Bank A/c	25000		<u>25000</u>
5th year		By Dead Rent A/c	25000
To Bank A/c	25000		<u>25000</u>

Q. 9. Write notes on the following :—

(a) Debenture with Collateral Security. (b) Contingent Liability. (c) Surrender value. (d) Liability of customers for acceptances and Endorsements and (e) Valuation Balance Sheet.

Ans. (a) Debenture as collateral Securities:—In the attempt to raise working capital by obtaining bank overdraft a company may have to furnish securities which the company does by issuing Debentures in favour of the banker. The debentures thus issued are known as **Debentures as collateral Securities**. By having such debentures the banker becomes secured in respect of the loan and on repayment of the loan by the borrower the debentures are released. Usually no entry is passed in the books of accounts for issue of such debentures and their existence is indicated on the Balance Sheet by means of a note only. If however the recording of such issue is desired to be passed through the books of accounts that may be done with the help of a Debenture Suspense A/c giving corresponding credit to Debenture A/c. On release of the debentures after the loan has been repaid a reverse entry will have to be passed to make the books adjusted.

(b) Contingent Liabilities :—As the name indicates the liability in question is contingent upon happening of a certain other incident and does not appear in the books unless actually incurred. In the currency of a suit in the court of law a certain amount may be declared as a contingent liability the actual incurrence of which will however depend on the decision of the case. In the case of the suit being decided in favour of the firm, the firm will not be required to meet the liability ; hence the liability as apprehended is contingent upon the decision of the case. No entry is however passed in the books of accounts but its apprehended existence is indicated in the Balance Sheet by a note to that effect.

(c) Surrender Value :—The term Surrender value is obtaining in respect of insurance policies. It represents the Cash Value of an Insurance Policy which can be realised from the insurer on surrendering the Policy. This benefit however begins to operate only after expiry of a certain number of years since the taken up of the Policy. It is based upon the amount of premiums already paid. In the earlier years of the Policy the surrender value represents a very small proportion to the amount of premiums paid but this proportion goes on increasing during the later years of the policy since the deductions in respect of administrative expenses do not increase correspondingly.

(d) Liability for acceptances and endorsements :—Not infrequently the banker is to accept or endorse the bills on behalf of its creditors. The banker's function here is that of a

surety and the liability for the same arises only in the case of the acceptor's (creditor of the bank) dishonouring his own acceptance. In cases of foreign bills where the acceptor is not known in the bill market this method of having the bill endorsed by a banker is largely taken recourse to this liability is shown by the bank in the balance sheet by means of contra entry being recorded on both the sides.

(e) **Valuation Balance Sheet**—This type of Balance Sheet is in vogue in Life Assurance Companies and the casting of such Balance Sheet is preceded by an actuarial valuation of liabilities. It contains on the liability side total liabilities of the company and the total of the life fund on the other side the difference between the two being shown either as 'Surplus' or as 'Deficiency' according to the nature of the balance. It is usually done once in every 4 years or more as may be provided in the articles. The surplus thus ascertained is utilised in paying bonus to holders of 'with profit' policies and in declaring dividends to the share holders of the Company.

1949

Q. 1. Atma Charan keeps his books by Single Entry and the position of his business as at 1st January, 1947 is as follows :—

Capital Rs. 70,000 ; Sundry Creditors Rs. 17,000 ; Free hold Premises 50,000 ; Stock 25,000 ; Debtors 20,000 ; Furniture 2,000.

His transactions during the year are classified as follows ;

<i>Receipts</i>		<i>Payments</i>	
	Rs.		Rs.
Sundry Debtors	15,000	Bank Overdraft (as on 1st Jan. 1947)	10,000
Cash Sales	80,000	Drawings	3,000
		Expenses	50,000
		Payments to Creditors	20,000
		Balance : Cash in hand	2,000
		At Bank	10,000
	95,000		95,000

You are asked to prepare a Trading and Profit and Loss Account for the year ended 31st December, 1947 and a Balance Sheet as at that date. The following additional information is supplied :

Closing Stock Rs. 3,00,000 ; Closing Debtors 25,000. No addition has been made during the year to Freehold Premises and Furniture Accounts but they are to be depreciated as Freehold Premises 10% and Furniture 15%. A Bad and Doubtful Debts Reserve of 2½% is to be raised against Closing Debtors.

Ans. Statement of credit Purchase

Payments to creditors during the year	Rs. 20,000
<i>Less</i> —Opening balance of creditors	Rs. 17,000
	<u>Rs. 3,000</u>
<i>Add</i> —Creditors at close	Nil
	<u>Rs. 3,000</u>

Total amount for which fresh
Creditors admitted during the year
which represents total credit purchase for the year.

Statement of Credit Sale

Amount received from Debtors during the year	Rs. 15,000
<i>Add</i> —Debtors on account at the close	Rs. 25,000
	<u>40,000</u>
<i>Less</i> —Opening Debtors	20,000
	<u>20,000</u>

Total amount for which fresh debtors
Credited during the year which represents
total amount of credit Sales for the year

Trading Account for the Year

Dr.	ended on 31st December, 1947	Cr.
	Rs.	Rs.
To Stock (opening)	25000	By Sales :
„ Purchase	3000	Cash 80,000
To Gross Profit c/d	102000	Credit 20,000
		<u>1,00,000</u>
		„ Stock (closing)
		30,000
	<u>1,30,000</u>	<u>1,30,000</u>

Dr.	Profit & Loss A/c for the Year ended	Cr.
	Rs.	Rs.
To Expenses	50,000	By Gross Profit b/d
„ Depreciation on :—		1,02,000
Freehold Premises		
@ 10% p. a. 5000		
Furniture 300		
@ 15% p. a. — 5300		
„ Reserve for Bad &		
Doubtful debts 625		
• „ Net Profit Transferred		
to Capital Account 46,075		
	<u>1,02,000</u>	<u>1,02,000</u>

Balance Sheet as at 31st. Dec., 1947

<i>Liabilities</i>	<i>Amount</i>	<i>Assets</i>	<i>Amount</i>
	Rs.		Rs.
Capital Account		Freehold Premises	
Balance			50,000
as on 1. 1. 47— 70,000		<i>Less—Deprecia-</i>	
Add—Profit for		<i>tion</i>	5000
the year— 46075			45000
		Furniture	2000
	1,16,075	<i>Less—Depre-</i>	
<i>Less—Drawings</i> 3,000		<i>ciation</i>	300
	1,13,075		1700
		Sundry Debtors	25000
		<i>Less Reserve for</i>	
		<i>Doubtful Debts</i> 625	
			24375
		Stock (closing)	30,000
		Cash in hand	2,000
		Cash at Bank	10,000
	1,13,075		1,13,375

[Absence of any figure for creditors at close appears to be of a peculiar nature in this sum.]

Q. 2. X, Y and Z are partners in a firm, sharing Profit and Loss as X—50%, Y—40% and Z—10%. Their Balance Sheet as on the 31st December, 1947 is given below :

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Sundry Creditors	25,000	Cash at Bank	2,000
Capital Accounts :		Sundry Debtors	40,000
X 40,000		Stock	20,000
Y 30,000		Plant	53,000
Z 20,000	90,000		
	1,15,000		1,15,000

X dies on 31st March, 1948 and the Partnership Deed provides *inter alia* that in the event of death of a partner his legal representative will be entitled to.

- A share of the profit up to the date of death
- Interested on Capital at 5% p. a.
- A shares of Goodwill calculated on the basis of 3 year's purchases of the average net Profit of the past Four Years.

The net profits of the firm for the years 1944, 1945, 1946 and 1947 were Rs. 30,000, Rs. 25,000 Rs. 50,000 and Rs. 35,000 respectively.

The Drawing of X up to the date of his death amounted to Rs. 1,500 according to the Partnership Agreement. Interest was to be charged on Partner's Drawing at 9% p. a.

Profit of the firm up to the date of death amounted to Rs. 12,000.

(i) You are asked to ascertain the amount payable to the Legal Representative of X.

(ii) Assuming that it has been agreed that the total sum payable to the Legal Representative of X was to be transferred to a Loan Account bearing interest at 5 per cent p. a. and that every year $\frac{1}{4}$ th of the principal amount and the accrued Interest would have to be paid to the deceased partner's legal representative, show the Loan Account as it would appear in the books of the firm on the 31st December, 1948 and 1949.

Ans. Besides Capital and Drawings the following amount will be payable to the Executors of X (deceased).

Interest on Capital— Rs. 500.

$$\left(\frac{40000 \times 5 \times 3}{100 \times 12} \right)$$

Share of Profit— Rs. 6000.
($\frac{1}{2}$ share of 12000).

Share of Goodwill :— Rs. 52500
(50% share of Goodwill).

The amount of Goodwill of the firm may be ascertained indicated below.

Profits	1944	Rs. 30000
	1945	„ 25000
	1946	„ 50000
	1947	„ 35000

Total Rs. 1,40,000

Average Profit = $1,40,000 \div 4$ = Rs. 35000.

Total Value of Goodwill = $3 \times \text{Rs. } 35000$ = Rs. 1,05,000

Out of which X's share will be :

50% of 105000 = Rs. 52,500.

[The profit for the period up to the date of death of partner is assumed to be after charging interest on Capital and Drawing].

The following amount will be realisable from Mr. X's representative.

Interest on Drawing of Rs. 15000—Rs. 16-14-0

(@ 9% Calculated on average basis i.e. taking $1\frac{1}{2}$ month's period into consideration).

After carrying out all the adjustments, indicated above, the Capital Account of X (deceased) will appear as given below :—

Dr.	X (deceased)'s Executor's A/c.		Cr.
	Rs.		Rs.
To Drawings A/c	1500-0	By X's Capital A/c	40,000
„ P & L A/c		„ P & L A/c	
(Interest on Drawing) 16-14		(Interest on Capital)	500
„ Balance transferred		„ Share of Profit	6000
to X (deceased)'s		„ Goodwill A/c	52500
Executor's Loan A/c 97483-2		(50% of total value)	
	<hr/>		<hr/>
	99,000-0		99,000-0

The executor's Loan A/c will appear as follows :

Dr.	1948	Cr.	
L	Rs.	Rs.	
To Bank A/c		By Balance in Executors of	
1/4 of 97483-2 plus	28026-5	X (deceased) A/c b/d 97483-2	
the amount of interest)		„ Interest A/c	
5, balance c/f	73112-6	(Interest for 9 months	
3)		@ 5% p. a.)	3655-9
	<u>1,01,138-11as.</u>		<u>1,01,138-11as.</u>

1949		Cr.
	Rs.	Rs.
Dr. Bank A/c		By Balance b/d
of 97483-2 plus	28026-5	73112 6as.
the amount of interest)		„ Interest
balance c/f	48,741-10	(@5% for year)
		3655-9as.
		76767-15
	76767-15	1. 1. 50
		By Balance b/d
		48741-10as.

Q. 3. The Balance Sheet of Bindhu, Sindhu and Indu as on the 31st December, 1948 was as follows :

<i>Liabilities</i>		<i>Assets</i>	
	Rs.		Rs.
Capital Accounts :		Cash at Bank	1,000
Bindu	10,000	Sundry Debtors	60,000
Sindhu	20,000		
Indu	15,000	Current Accounts :	
	45,000		
Sindhu's Loan Account	15,000	Indu	3,000
„ Current Account	2,000	Bindu	11,000
Sundry Creditor	20,000		
	82,000		82,000

The partners decided to dissolve the firm on the basis of the above Balance Sheet and the Debtors realised 75 percent and bank in which the firm had its balance had gone into Liquidation Bindu became insolvent and his estate was unable to contribute anything to the firm. Assuming that the Liquidator of the bank gave 2as. in the Rupee, you are asked to dissolved the firm.

Ans. Journal Entries

- (1) Realisation A/c Dr. Rs. 68000.
 To Sundry Assets A/c Rs. 68000
 Sundry Debtors 60,000
 Bank 8,000
 (Assets being transferred to Realisation Account).
- (2) Sundry Creditor's A/c Dr. Rs. 20,000
 To Realisation A/c Rs. 20,000
 (Being the transfer of creditor's account to Realisation A/c).
- (3) Cash Dr Rs. 46000
 To Realisation A/c Rs. 46000
 (Being the amount Realised from Sundry Assets).
- (4) Realisation A/c Dr. Rs. 20,000
 To Cash Rs. 20,000
 (Being the creditors paid off).
- (5) Current A/c Bindu Dr. Rs. 7333-5-4
 Current A/c Sindhu Dr. Rs. 7333-5-4
 Current A/c Indu Dr. Rs. 7333-5-4
 To Realisation A/c Rs. 22000
 (Being the loss on realisation transferred to partners' current Accounts).
- (6) Sindhu's Loan A/c Dr Rs. 15,000
 To Cash Rs. 15,000
 (Being the loan paid off).

Dr.	Current A/c Bindu		Cr.
	Rs.		Rs.
To balance b/f	11000	By Balance transferred	
„ Realisation A/c	7333-5-4	to Capital A/c	18333-5-4
	<u>18333-5-4</u>		<u>18333-5-4</u>

Dr.	Current A/c Sindhu		Cr.
	Rs.		Rs.
To realisation A/c		By Balance b/d	2000
(Share of Loss)	7333-5-4	„ Balance transferred	
		to Capital A/c	5333-5-4
	<u>7333-5-4</u>		<u>7333-5-4</u>

Dr.	Current A/c Indu		Cr.
	Rs.		Rs.
To Balance b/d	3000-0-0	By Balance transferred	
„ Realisation A/c		to Capital A/c	10,333-5-4
(Share of Loss)	7333 5-4		
	<hr/>		<hr/>
	10333-5-4		10,333-5-4

Dr.	Capital A/c Bindu	Cr.	
	Rs.	Rs.	
To Current A/c		By Balance b/d	10000-0-0
balance b/f	18333-5-4	„ Deficiency transferred	
		to Capital A/c	
		Sindhu	4761-14-6
		Capital A/c Indu	3571-6-10
	<hr/>		<hr/>
	18333-5-4		18333-5-4

Dr.	Capital A/c Sindhu	Cr.
	Rs.	Rs.
To Current A/c		By Balance b/d
balance b/f	5333-5-4	20,000-0-0
„ Capital A/c		
(Deficiency) Bindu	4761-14-6	
„ Cash	9904-12-2	
	<u>20,000-0-0</u>	<u>20,000-0-0</u>

Capital A/c Indu

	Rs.		Rs.
To Current A/c balance b/f	10333-5-4	By Balance b/d	15000-0-0
„ Capital A/c (Deficiency) Bindu	3571-6-10		
„ Cash	1095-3-10		
	<u>15000-0-0</u>		<u>15000-0-0</u>

[N. B. Although the dissolution had been carried on in terms of decision in Garner Vs Murraray Case, the formality regarding bringing of cash by the solvent partners in proportion of their respective share of losses has been dispensed with the view of the fact that the account being maintained on fixed capital system proportion of Capital contribution could be seperately ascertained].

Q. 4. Subhalakshmi Limited was registered with a Nominal Capital of 10,000 Ordinary Shares of Rs. 50 each and 5,000 Preference share of Rs. 100 each it acquired the business of Banalakshmi and Vidylakshmi at an agreed price of Rs. 2,00,000.

The assests and Liabilities of the business taken over were as given below :

<i>Liabilities</i>		<i>Assets</i>	
	Rs.		Rs.
Sundry Creditors	25,000	Freehole	1,00,000
Capital Account :		Plant & Machinery	80,000
Banalakshmi	1,25,000	Stock	20,000
Vidyalakshmi	75,000	Debtors	25,000
	<u>2,25,000</u>		<u>2,25,000</u>

The Purchase Consideration was to be discharged by the issue of 1,000 Preference Share issued as fully paid and 10,000 Ordinary Shares issued as Rs. 25 per share paid up. The balance of the Purchase Consideration was to be paid by cash.

The balance of the Preference Shares and 5,000 Ordinary Shares were issued to the public and were fully called up and paid up.

You are asked to Journalise the transactions in the books of the Company. Assumed that the vendors were fully paid off.

Give also the Opening Balance Sheet of the Company resulting from the above transactions.

You have been asked to ascertain the net Profit relating both to the Pre-Incorporation and the Company periods and state how the Pre-Incorporation Profit should be utilised by the Company.

Ans. (a) The term Capitalisation of Reserve means employment of a portion or whole of Reserve representing accumulated gain or profit in acquisition of permanent assets. Simply speaking it refers to inclusion of Reserve into Capital. This can be done either by issuing fully paid up shares setting off the amount of bonus declared out of Reserve or by making partly paid shares fully paid up setting off the amount of bonus due therewith. In either no amount is due to be forthcoming. The issue of such shares against bonus payable to the shareholders may be at par and at a premium too. As a result of such capitalisation the rate of dividend is sure to come down and a Company should take this factor into consideration before taking decision on issue of share out of bonus.

The legal obligations for giving effect to such decision is to see whether the Articles does permit such issue of shares and whether the issue is within the limit of. Authorised Capital. If however the issue is not covered by the limit of authorised capital necessary action should first be taken to raise the limit of authorised Capital in the manner prescribed for such purpose. In the absence of the specific provision in the Articles authorising such issue of shares out of bonus a special Resolution must be adopted to enable such issue to be performed.

Capitalisation of Reserve may also be effected by transferring the General Reserve to Capital Reserve.

Ans. (b) **Profit & Loss A/c (columnar)**

Dr.			Cr.		
Particulars	Prior to incorporation	After incorporation	Particulars	Prior to incorporation	After incorporation
To Directors' fees		1200	By Gross Profit	40,000	60,000
" Preliminary Expenses		5000			
" Rent	900	2700			
" Debenture Interest		2600			
" Salaries	1500	4500			
" Insurance Premium	100	400			
" Audit fees		1000			
" Depreciation of Plant	300	450			
" Net Profit	37200	42150			
	40,000	60,000		40,000	60,000

[N. B. Rent, Salaries have been allocated on the basis of period whereas the insurance premium has been allocated on the basis of turnover for the two periods. Depreciation charges has been allocated on the basis of Gross Profit for the two periods].

The term "Pre-incorporation Profit" carries no sense. Presumably Profit prior to incorporation had been meant by this term. The profit prior to incorporation refers to such profit a Company may earn during the period intervening the date of taking over as agreed upon and the date of incorporation (the date of issue of commencement certificate) in the event of a Company being formed for taking over another firm as a going concern.

Since a Company cannot earn profit prior to its incorporation such profit is to be regarded as Capital Profit available for writing down Capital losses, Preliminary Expenses, Goodwill etc. The interest on Purchase consideration constitutes first charge against the Profit prior to incorporation.

Q. 6. (a) How does the Fixed Instalment method of Depreciation differ from the Reducing Instalment method? Which of these two methods would you recommend in depreciating (i) Furniture and Fixture. (ii) Plant and Machinery and (iii) a short Lease? Give reasons for your answer.

(b) How does the Depreciation Fund Method differ from the methods mentioned in (a) above? Discuss the topic from various points of view.

Ans. (a) Under the Fixed Instalment method of depreciation total cost of the asset is distributed uniformly over a number of years during which the asset in question is to render service and as such a fixed amount is charged to each year's profit as Depreciation charges.

Under the Reducing Instalment method a fixed percentage of the balance in the asset account in question is charged to profit and the value of asset diminishes to that extent only. The amount of depreciation charge under this method gradually decreases from year to year as the asset grows older.

The main difference between the two methods lies in the fact that under the former method the value of the asset in question can be brought down to Zero whereas in the latter case this cannot be done and a value representing the scrap value of the asset will still be there even after expiry of the estimated life of the asset. The Reducing balance method of depreciation is considered more sound in the sense that under this method a larger amount of depreciation is charged during the earlier life of the asset when the production yielding capacity or service

rendering capacity of the same is higher. The fixed instalment method ignores this sound principle.

(i) Furniture & Fixture being of the nature of losing its service-rendering capacity in the comparatively older years and also being of the nature of having a scrap value at the end of its life is appropriately chargeable to depreciation under the Reducing Balance Method.

(ii) For the same reason as discussed in respect of Furniture, Plant & Machinery is also chargeable to depreciation under the Reducing Balance Method.

(iii) The 'Lease' being for a specific period and having nothing to leave as scrap value after expiry of the period the Fixed Instalment Method is suitable for purposes of charging depreciation on 'lease'.

(b) Under the Depreciation Fund Method a fixed amount of depreciation is charged to P & L A/c and thereby creates a fund. An amount equivalent to the depreciation charges is invested in gilt-edged securities carrying interest. The proceeds from these securities are also invested in the same kind of investment and as a result the interest is compounded. The instalment of annual depreciation charges is so calculated with the help of annuity table as would along with the interest compounded thereon bring the fund as well as the investment to the quantum of money, required for replacement of the asset in question. As such the charge against profit for depreciation becomes the minimum.

The chief point of distinction of this method with the methods discussed above lies in the fact that the Depreciation fund Method not only provides for loss in the value of asset but takes into consideration the question of funds for replacement of the asset in question. Maintenance of such fund helps replacement in as much as the working capital of the business is not affected due to the spending of the amount for replacement of asset.

Q. 7. The Calcutta Head Office of Yilwamangal Chemical Works supplies its goods to its branches at Bombay and Gauhati by adding 50% to the cost price of goods.

(a) What adjustments in your view, will be necessary at the end of the financial year in order that the Head Office may be enabled to arrive at the correct of branch profits?

(b) What according to you will be the best method for dealing with Inter-branch transactions?

Ans. Recording of transactions with the Branch at the loaded invoice value will involve excess credit in the Branch A/c in respect of closing Stock. Returns from Branch and excess debit in respect of opening Stock, Goods sent to Branch. The

excess debit and the excess credit in the Branch A/c in H. O. books will have to be eliminated by debiting Branch A/c and crediting Difference in value of Branch Stock A/c and Goods Sent to Branch A/c respectively. in respect of excess credit due to recording of closing Stock, Returns from Branch at the loaded value. Similarly Branch A/c will be credited with Difference in value of Stock A/c, goods Sent to Branch A/c to eliminate the effect of excess debit given to Branch A/c due to recording of the transactions at loaded invoice value. In any case the adjusting entry will be for the difference between the actual cost and the price at which those transactions had originally been recorded. This difference can be found out by applying :—

$$\text{Percentage of deduction} = \frac{100 \times R}{100 + R} \cdot R$$

representing percentage of loading on Cost.

In the subject sum we may have the percentage of deduction as 33½% by appling to the formula given above.

[For details regarding journal entries to adjust the excess debits and excess credits please see answer to 7 (a) of 1948].

• (b) In the matter of recording in Branche's books inter-Branch transactions the principle will be same if the transactions were with the Head Office. The Branch while sending any goods to other Branch will record the same in the Head Office A/c as if those goods have been sent to H. O. and the Branch receiving the goods will also record the same in the credit of Head Office Account as if the same were received from H. O. In order to have the inter-Branch transactions duly adjusted in H. O. Books, the Head Office must be informed by the branches concerned of the transactions between them.

Q. 8. Bengal National Bank Limited was registered with 50,000 Shares of Rs. 10 each, of which 40,000 shares were issued to the public and all these share taken up and Rs. 20 per share were called and paid up.

(a) From the undermentioned particulars you have been asked to give the Balance Sheet the bank as at 31st December, 1948 :

	Rs.	
Reserve Fund	2,50,000	Cash Balances :
Reserve for Bad &		At H. Q. Branches
Doubtful Debts	30,000	1,50,000
Liability for Expenses	20,000	With Other

Furniture	20,000	
Less Dep.	1,000	19,000

Buildings	2,40,000	
Less Dep.	24,000	2,16,000

Rebate on bills not yet due	10,000	
Fixed Deposits	20,00,000	
Current Accounts	15,00,000	

The following additional information has been supplied :

Acceptances and Endorsements	
on behalf of Customers	95,000
Undistributed Profit	50,000
Profit & Loss Account :	
Profit during year	1,25,000

(b) What are the principal books kept by a Bank or by an Insurance Company ? Show your acquaintance with any three of them.

Ans. (a)

Balance Sheet

as on 31st December, 1948

<i>Liabilities</i>		<i>Amount</i>
Authorised Capital		
50,000 Shares of Rs. 25 each		12,50,000
Issued & Subscribed Capital		
40,000 Shares of Rs. 25 each		
Rs. 20 per share being called up		8,00,000
Reserve Fund		2,50,000
Reserve for Bad & Doubtful debts.		30,000
Deposits :		
Fixed Deposit Account	20,00,000	
Current Deposit Account	15,00,000	
	-----	35,00,000
Rebate on bills discounted		10,000
Liability for expenses		20,000
Acceptance, endorsement etc. on behalf of the customers as per Contra		95,000
Profit & Loss Account balance		
Previous year's balance	50,000	
Add Current year's Profit	1,25,000	
	-----	1,75,000
Total		48,80,000

Balance Sheet (continued)

<i>Assets</i>		<i>Amount</i>
Cash balance :		
Cash in hand	1,50,000	
Cash with other banks	4,50,000	
		6,00,000
Money at call and short notice :		
Bills discounted	Nil	
Investment at cost	3,00,000	
		3,00,000
Loans, Advances Cash Credits and Overdrafts as per particulars appended below :		
(i) Debts considered good for which the bank is fully secured		
(ii) Debts considered good for which the bank holds no other security than the personal security of the debtors		
(iii) Debts considered and secured by the liabilities of one or more parties over and above the personal security of the debtors		
(iv) Debts considered doubtful and bad and not covered by any reserve		
(v) Debts due by Director or Officers of the bank and debts in respect of which either of them stands severally or jointly responsible along with other persons		
(vi) Debts due by Companies or Firms in which the Directors of the Bank are interested as Directors, Partners, Mg. Agents.		
		36,50,000
Bank Premises	2,40,000	
(Cost)		
Less Depreciation	24,000	
		2,16,000
Furniture	20,000	
(cost)		
Less Depreciation	1,000	
		19,000
Acceptances, endorsements on behalf of the Customers as per contra.		95,000
	Total	48,80,000

Ans. (b) Following is the list of books and registers required to be maintained by a Bank :—

- | | | |
|-----------------------------------|---|--------------------------------|
| 1. Security Register | } | Memorandum Books. |
| 2. Bills Journal | | |
| 3. Safe Custody Register | | |
| 4. Bills Discounted Books | } | Journal &
Subsidiary books. |
| 5. Bills Payable Register | | |
| 6. Bills Receivable Register | | |
| 7. Journal (Proper) | | |
| 8. Daily Receipts Books (Counter) | } | Ledgers. |
| 9. Daily Payments Books (counter) | | |
| 10. Cash Books (General) | | |
| 11. Current Account Ledgers | | |
| 12. Savings Account Ledgers | | |
| 13. Fixed Deposit Ledgers | | |
| 14. Agency Ledgers | | |
| 15. Loan Ledgers | | |
| 16. General Ledgers | | |
| 17. Investment Ledgers | | |

Following is the list of the books and registers usually maintained by an Insurance Co. :—

- | | |
|------------------------------|---|
| 1. Proposal Register | 10. Journal (Proper) |
| 2. Branch Cash Register | 11. Register of Annuities |
| 3. Claims Cash Register | 12. Register of Cash Premiums Showing : |
| 4. Register of Premium | (i) New Premiums |
| 5. Claims Register | (ii) Renewal Premiums |
| 6. Register of Policy holder | (iii) Single Premiums |
| 7. Policy Loan Ledger | (iv) Consideration for annuities granted. |
| Investment Ledger | |
| 9. General Ledger | |

Bills Discounted Book :—The most important business of a modern bank being discounting of bills the bank maintains record of bills purchased from the customers in details in a columnar register known as Bills Discounted Books. This books contains all the details of the bills discounted the principal points being : Date of the bill ; Name of the drawer ; Name of the drawee ; Date of maturity ; where payable ; Name of the banker through whom the bill is to be cleared ; Amount of the bill ; Amount of Discount etc.

Investment Ledger :—Buying and Selling investment being one of the chief functions of a Bank and an Insurance Co as well they maintain this ledger on a columnar basis indicating therein cost ; Nominal value ; Interest etc. separately. Besides separate accounts are maintained for each kind of investment and on the top of the account the rate of interest, due date of payment of interest are also shown.

Proposal Register :—The very name indicates that the book is a register and any book of account. It records in details every particulars of every proposal showing the date of acceptance of the proposal, date of maturity in case of endowment Policies, nature of Policy etc. and others particulars about the Policy holders too. The decision of the Board regarding acceptance or otherwise of the proposal is also recorded in this register.

1950

Q. 1. Tin Products Ltd. manufactures bottled drinks. You are required to prepare a Manufacturing Account and a Profit-Loss Account showing in such account such percentages and figures as will enable periodical comparison.

Stock as cost as on 1st July, 1948

	Rs.
• Bottled Drinks	34,612
Ingredients	73,690
Bottles etc.	16,000

Stock at cost as on 31st December, 1948

Bottled Drinks	17,500
Ingredients	41,072
Bottles etc.	9,633
Sales	3,90,104
Purchases :	
Ingredient	1,73,410
Bottles etc.	43,110
Factory wages	84,092
Factory Expenses	3,900
Factory Rent	9,000
Charge Inwards	4,000
Charges of transport of Finished products	6,000
Office Expenses including salary	35,648
Selling expenses	10,000

The stock of finished products at end was 200 cases and that at start was 1190 cases. During the half year 11,900 cases were manufactured.

Ans. Tin Products Ltd.

**Manufacturing Account for the half year ended
on 31st December, 1948**

Dr.**Cr.**

Particulars	On cost per case	Amount		On cost per case	Amount
To Stock (opening)			By Cost of Pro-		
Ingredients			duction of		
73690			11900		
Bottles 16000			Cases Trans.		
			to Trading		
			Account	29.95	3,56,497
89690					
Add :					
Purchase of					
Ingredients					
173410					
Bottles 43110					
Add :					
Carriage on					
Purchase 4000					
3,10,210					
Less :					
Stock (closing)					
Ingredients					
41072					
Bottles 9633					
50,705					
Materials					
consumed	21.81	2,59,505			
To Factory					
wages	7.06	84,692			
Prime cost	28.87	3,43,597			
To Factory					
Expenses	0.33	3,900			
To Factory Rent					
	0.75	9,000			
Total	29.95	3,56,497	Total	29.95	3,56,497

The number of cases of Finished Stock in hand at close is taken to be 1200 instead of 200 as mentioned and the working of the Trading Profit & Loss Account is furnished below on the basis of the assumed figure.

Trading, Profit & Loss A/c

for... ..

Dr.			Cr.		
Particulars	On cost per case	Amount	Particulars	On cost per case	Amount
To Stock (opening)	29.8	34,612	By Sales (11890 cases)	32.81	3,90,104
To cost of Production (11900 cases) as per Mfg. A/c		3,56,497	By Stock (closing)*	31.25	37,500
To Transport charges (Finished Products)		6,000			
To Gross Profit c/d		30,495			
		<u>4,27,604</u>			<u>4,27,604</u>
To Office Expenses		35,648	By Gross Profit b/d		30,495
To Selling Expenses		10,000	By Net Loss c/d		15,153
		<u>45,648</u>			<u>45,648</u>

* The stock is assumed to have been shown at higher of the Cost or Market Value and the total value is assumed to be Rs. 37500 instead of Rs. 17,500 ; otherwise the whole sum would have been of no sense.

Q. 2 A Sewing Machine manufacturer sell machine on hire-purchase system. On 1st March a machine is sold for Rs. 400 payable in 10 equal monthly instalments of Rs. 40 each. The cost of the machine to the manufacturer is Rs. 360. The instalments are paid in due time. The manufacturer closes his annual accounts on 31st July. How would the manufacturer record this transactions so that correct profit is taken credit of in his annual accounts ?

Ans. The sum as reproduced does not appear to be of the nature of Hire Purchase in the strict sense of the term. In Sales on Higher Purchase the instalment money includes receipt of payment towards the Sale price as well as interest on the unpaid balance since the last payment. Here only the sum total of the instalments and the actual cost to the Seller have been furnished without indicating the rate of interest. Even if the rate of interest had been furnished no question of taking credit of correct profit does arise since under the hire purchase system the vendors record the sale on the very moment the agreement is reached and the goods are in course of delivery. The account of the hirer stands as a 'debtor's account and is finally eliminated on receipt of the last instalment. Since however the amount of profit to be taken credit of has been required the working of the same is indicated below assuming that the instalment is payable on the closing day of every month.

Dr. Hire Purchase Sales A/c		Cr.	
Amount		Amount	
March 1.	Rs.	March.	Rs.
To Goods Sent on Hire Purchase A/c	360	By Hirer's A/c	40
March 31.		April 30	
To interest A/c	.....	By Hirer's A/c	40
April 30.		May 31	
To Interest A/c	.....	By Hirer's A/c	40
May 31.		June 30.	
oT Interest A/c	.....	By Hirer's A/c	40
June 30.		July 31.	
To Interest A/c	.....	By Hirer's A/c	40
July 31.		" By Goods on Hire	
To Interest A/c	.....	Purchase Stock A/c	180
July 31. To Balance—		($\frac{1}{2}$ of the cost)	
Profit on Sale on Hire-Purchase transferred to P & L A/c	20		
	380		380

Dr. Goods on Hire Purchase Stock A/c		Cr.	
		Rs.	
To Hire Purchase Sales A/c	180		

Q. 3. A merchant assigns all his assets and Liabilities to a committee of his creditors to enable them to relieve 75 per cent of their claims. The statement of assets and liabilities on the of the assignment is as follows :—

	Rs.		Rs.
Leasehold	1,00,000	Creditors	2,88,000
Furniture	8,000	Rent and Salary	
Stock	60,000	unpaid	1,000
Debtors	40,000		
Bank	500		
Cash	500		
Drawing	80,000		
	<hr/>		<hr/>
	2,89,000		2,89,000
	<hr/>		<hr/>

It was arranged that small liability of Rs. 1,000 would be paid in full. The creditors arranged for the necessary finance and took over the business. It was decided to value the leasehold furniture, stock and Debtor at Rs. 80,000 ; 90,000 ; 50,000 and 35,000 respectively. Show the Balance Sheets with which the creditors will start the business again.

Ans. The business is taken over by the creditors in satisfaction of their claim for 75% of the firms debts. On this basis the consideration for purchase of the firm should have been to the tune of Rs 2,16,000. It is something absurd here to note that against the claim for Rs. 2,16,000 assets of the book value of Rs. 2,08,000 (2,09,000—1,000) have been assigned to the committee of creditors. Naturally certain amount must be forth coming from Drawings Account so that the creditors may get the agreed rate of dividend.

Consideration for taking over the business will work out as follows :—

Leasehold—	80,000
Furniture—	9,000
Stock—	50,000
Debtors—	35,000
Cash—	42,000. * *

Rs. 2,16,000

* * The amount represents amount realised from the trader against Drawings.

Balance Sheet

<i>Liabilities</i>		<i>Assets</i>	
	Rs.		Rs.
Sundries	2,16,000	Leasehold	80,000
		Furniture	9,000
		Stock	50,000
		Debtors	35,000
		Cash	42,000
	2,16,000		2,16,000

Q. 4. From the following particulars prepare a Statement of Affairs for the following bankrupt estate :

	Rs.
Unsecured Creditors	3,54,612
Perferential Claims	4,613
Creditors partly secured	40,000
Value of Security	40,000
Loan	20,000 /
Furniture	5,000
Cash at Bank	3,000
Cash in hand	500
Stock	18,620
Debtors Good	11,119
Bad	1,918
Doubtfull	1,832

You are required to allow 10 per cent off stock, 10 p. c. off Furniture, 7½ per cent of good book debts, other book debts realising Rs. 500. There was no separate estate or asset of the insolvent.

Ans.

Statement of Affairs
(In Insolvency) •

Gross Liabilities	Liabilities (as stated & estimated by the Debtor)	Expected to rank for dividend	Assets (as stated & estimated by the Debtor)	Book value	Estimated to Produce
3,54,612	Unsecured creditors, as per list 'A'	3,54,612	Property as per list 'E' viz :		
	Creditors Partly Secured as per list 'C' 40,000		(a) Cash at Bankers		3,000
40,000	Less—Estimated value of Securities 40,000		(b) Cash in hand	5 000	500
			(c) Furniture	18,620	4,500
			(d) Stock		16,758
		Nil	Total as per List 'E'	.....	24,758
4,613	Preferential Creditors for Rent, Wages, Salaries, Taxes etc. as per list 'D' payable in full 4,613		Book debts as per list 'F' viz :	11,119	
			Good	1,918	
			Doubtful	1,832	
			Bad		
	Deducted Contra. 4,613	.....	Estimated to Produce	14,869	10,785
			Deduct Preferential Creditors per contra		35,543
			Deficiency explained in statement 'H'		4,613
					30,930
		3,54,612			3,23,682
					3,54,612

Rs.

Q. 5. A Company in England owns a tea garden in Assam. Tea produced in the garden is sold in Calcutta by broken and remittance sent to London office with account sales. The accounts as kept in the garden are in Indian currency and copies are sent to London monthly. The account sales and remittances to Assam are kept in sterling in the H. O. books. What steps are you take when writing the books of Head office and preparing the final accounts of the Company ?

Ans. The first thing we are required to do in recording the transactions of the branch in the Head Office books is to convert the statements furnished by the Branch (in India) into sterling currency. After the transactions in the statements having been converted necessary steps to record these in the H. O. books will be taken and the Head office will be preparing Branch Trading Account (here in this case an working Account will be more appropriate). Branch P & L Account by giving corresponding entries in the Branch Account. Assets and Liabilities of the branch on the date of closing the books of accounts of the Head office will be incorporated in the account in the same manner and those will be shown in the General Balance sheet.

Very often the rates of exchange between the currencies of the two different countries fluctuate on the different times in course of the same year. In order to make the accounts more appropriate certain general principles are followed in the matter of conversion of the figures in the statement. The principles followed may be summarised as follows :

1. Fixed assets and liabilities are to be converted at the rate of exchange ruling on the day on which they are acquired or incurred.

2. Floating assets and liabilities are to be taken in account on the basis of the rate of exchange ruling at the time of annual closing of books of accounts.

3. Items of Nominal Accounts are converted at an average rate of exchange for the year under review.

4. The Head office Account appearing in the statement is to be taken at the same figure as appearing in Branch Account in H. O. books.

Having thus converted the different items in the Trial Balance at different rates other than the actual rate at which the transactions had been effected the Trial Balance thus recast and converted will not agree. This difference in Trial Balance is accounted for as Difference in Exchange and debited or credited to P & L A/c according to the nature of the balance.

Where however the rate of exchange between the currencies of the Head office and the Branch do not constantly fluctuate the conversion is done at a fixed rate of exchange ignoring the slight fluctuations. These slight fluctuations are no doubt

covered by taking recourse to the system of showing the difference as "Difference in Exchange".

Q. 6. Light Ltd. takes over the business of Dark Ltd. as from 1st June 1949 on the following terms :—

(a) Assets and Liabilities are to be taken over at their book values.

(b) 4% Debenture of Rs. 100 each of Dark Ltd. are to be replaced by 5% Debentures of Rs. 1000 each of Light Ltd. at 1 p. c. premium.

(c) 2 shares of Light Ltd. of Rs. 10 each at per, to be given in exchange for 3 shares of Dark Ltd. of Rs. 5 each.

The following of the Balance Sheet of Dark Ltd. on which the taking over is to be effected :—

			Rs.
40,000 shares of		Plant & Machinery	2,50,000
Rs. 5 each	2,00,000	Land and Building	1,20,000
4% Debentures of		Furnitures & Features	25,000
Rs. 100 each	1,00,000	Debtor	15,000
Reserve Fund	20,000	Stock	1,80,000
Creditors	2,90,000	Investments	25,000
Profit Loss A/c	10,000	Cash Balance	5,000
	Rs. 6,20,000		Rs. 6,20,000

Close the books of Dark Ltd. and show the opening in the books of Light Ltd.

Ans. The consideration for purchase of the business by Light Ltd. will calculate as follows :—

$$\text{Shares—} \frac{40000}{3} \times 2 = 26667 \text{ shares of Rs. 10 each.} \\ = 2,66,670$$

$$\text{Debentures—Rs. 1,00,000} + 1\% \text{ of } 1,00,000 \\ = \text{Rs. } 1,01,000$$

$$\text{Total Rs. } \underline{\underline{3,67,670}}$$

Journal Entries to close the affairs.

Realisation A/c Dr	Rs. 6,20,000	
To Sundry Assets A/c		Rs. 6,20,000
Plant	2,50,000	
Land & Buildings	1,20,000	
Furniture	25,000	
Debtor	15,000	
Stock	1,80,000	
Investment	25,000	
Cash in hand & at Bank	5,000	

(Sundry assets being transferred to Realisation Account).

- (2) Creditors' Account Dr Rs. 2,90,000
 To Realisation A/c Rs. 2,90,000
 (Sundry creditors being transferred to Realisation Account)
- (3) Light Ltd. (Vendee) A/c Dr Rs. 3,67,670
 To Realisation A/c Rs. 3,67,670
 (Being the amount of Purchase consideration taken credit of).
- (4) Realisation A/c Dr Rs. 1000.
 To Debenture holders' A/c Rs. 1000
 (Being the amount of premium agreed upon by the Vendee-credited to Debenture-holder's Account).
- (5) Realisation A/c Dr Rs. 36,670
 To share holder's A/c Rs. 36670
 (Profit on realisation being transferred to shareholder's Account).
- (6) Reserve Fund Dr Rs. 20,000
 Profit & Loss A/c Dr. Rs. 10,000
 To Shareholder's A/c Rs. 30,000
 (Shareholders Account being credited with the accumulated and undistributed Profits).
- (7) Shares in Light Ltd. A/c Dr Rs. 2,66,670
 To Light Ltd. (Vendee) A/c Rs. 2,66,670
 (26667 shares of Rs. 10 each being received from the Vendee in part satisfaction of the consideration for purchase).
- (8) 5% Debentures in Light Ltd. A/c Dr Rs. 1,01,000
 To Light Ltd. A/c Rs. 1,01,000
 (10—5% Debentures being received from vendee in part satisfaction of the consideration for purchase).
- (9) Shareholders' A/c Dr Rs. 2 66,70
 Sundry Debenture holder's A/c Dr Rs. 1,01,200
 To shares in Light Ltd. A/c Rs. 2,66,670
 „ 5% Debentures in Light Ltd. A/c Rs. 1,01,000
 (Sundry Shareholders and Sundry Debenture holders being paid off with the Shares and Debentures received from Light Ltd).

Dr.		Realisation A/c	Cr.
Amount		Amount	
Rs.		Rs.	
To Sundry Assets	6 20,000	By Sundry creditors	2,90,000
„ Debenture holders		„ Light Ltd. (vendee)	
(Premium) A/c	1,000	A/c	3,67,670
„ balance profit		(Purchase consideration)	
on realisation			
transferred to Share-			
holder's A/c	36,670		
	<u>6,57,670</u>		<u>6,57,670</u>

Dr.	Light Ltd. A/c (Vendee)	Cr.
	Rs.	Rs.
To Realisation A/c (Purchase consideration).	3,67,670	By Shares in Light Ltd. A/c 2,66,670 „ 5% Debentures in Light Ltd. A/c 1,01,000
	3,67,670	<u>3,67,670</u>

Dr.	Sundry Shareholder's A/c		Cr.
	Rs.		Rs.
To Shares in Light Ltd. A/c	2,66,670	By Share Capital (transferred)	2,00,000
		„ Realisation A/c (Profit on realisation)	36,670
		„ Reserve Fund	20,000
		„ P & L A/c	10,000
	<hr/> 2,66,670		<hr/> 2,66,670

Dr.	Sundry 4% Debenture holder's A/c	Cr.
	Rs.	Rs.
To 5% Debentures in		By 4% Debentures A/c 1,00,000
„ Light Ltd. A/c 1,01,000		(transferred)
		„ Realisation A/c
		(Premium) 1000
	<u>1,01,000</u>	<u>1,01,000</u>

Q. 7. How would you treat the following. in the final accounts of a company ?

(a) Rs. 20,000 Debentures issued as a Collateral Security for a loan of equal amount taken by the company.

(b) A claim of Rs. 10,000 for damages filled by an employee of the company but the claim case remained unsettled in Court.

(c) Assets valued at Rs. 15,000 in the books were destroyed by fire. Claim for Rs. 20,000 being the present value of the assets was made against Insurance Company. Claim case remained unsettled at the end of the accounting year.

Ans. (a) Issue of such debentures is not passed through the books but their existence is indicated simply by means of a note on the liability side.

For detailed discussion please see Ans. to Q. 9 (a), 1948.

(b) No decision having been taken on the matter as yet, the incurrence of this liability is considered to be contingent upon the decision of the Court and hence the estimated figure of liability may be shown as a "Contingent Liability" by a note at the foot of the Balance Sheet.

For detailed discussion please see Ans. to Q. 9 (b), 1948.

(c) As the claim is not yet admitted by the underwriters, no adjustment can be made with regard to the amount of claim. Nevertheless the asset in question can be shown in the Balance Sheet without any qualification since the asset has lost its physical existence. Consequently a note under the style "Destroyed by fire and under settlement with the underwriters" should be given below the entry of the asset in question in the Balance Sheet and thereby the charge of misdeclaration in Balance Sheet can be avoided.

Q. 8. A company forfeited 1,000 share of Rs. 10 each issued at a premium of Rs. 2 per share payable with application. These shares were payable in four equal instalments, two of which and the premium were paid. 500 of these shares were reallocated at a discount of Rs. 1 per share. These payments were duly received. Show the entries in the books of the Co. and state how you would deal with the premium collected on these shares originally and also with the profits made on the reissue of the shares.

Ans.

Journal Entries

(1) Share Capital A/c	Dr Rs. 10,000	
Premium on Issue of Share A/c	Dr Rs. 2,000	
To Share Forfeiture A/c		7,000
" " First call A/c		2500
" " Second call A/c		2500

(1000 shares of Rs. 10 each issued at a premium of Rs. 2 per share on which 1st and 2nd Call fell in arrears being forfeited as per Board's resolution dated.....the credit is given to share forfeiture A/c with the amount received in respect of those shares along with the amount of premium).

(2) Bank A/c	Dr Rs. 6000	
To Share Capital A/c		Rs. 5000
" Premium on reissue of Share A/c		Rs. 1000

(500 forfeited shares being reissued at a premium of Rs. 1 per share).

(3) Bank A/c	Dr Rs. 4500	
Discount on reissue of shares A/c	Dr Rs. 500	
To Share Capital A/c		Rs. 5000

(500 forfeited shares being reissued at a discount of Rs. 1 per share).

- (4) Premium on Reissue of shares A/c Dr. Rs. 1000
 To share Forfeiture A/c Rs. 1000
 (Premium collected on reissue of shares previously forfeited
 being transferred to share forfeiture A/c).
- (5) Share forfeiture A/c Dr Rs. 500
 To Discount on re-issue of shares A/c Rs. 500.
 (Discount incurred in issuing the forfeited shares being
 transferred to share forfeiture A/c).

Share forfeiture Account represents the amount already received in respect of the Shares decided to be forfeited hence the amount of premium received thereon should also be appearing in that account.

Again, the amount of premium received for the second time while re-issuing the shares being contingent upon the forfeiture of shares should also come under Share Forfeiture Account. Similarly discount allowed in re-issuing the forfeited shares should also appear under the share forfeiture Account.

Having thus accounted for the Share forfeiture Account will indicate a balance of Rs. 7500 which is to be regarded as a Capital gain and need not be taken into Profit & Loss account for purposes of distribution. The balance in the Share forfeiture Account after writing of items of Capital Losses, if any, is put to Special Reserve Account and serves as a provision for future contingency as regards adjustment of losses of Capital nature. This reserve is generally utilised in writing off Preliminary Expenses, in writing down the value of goodwill paid on purchase of any business and for similar other purpose. In the Company's Act however there is no restriction on such reserve being utilised in payment of dividend and hence the same can be so utilised provided the articles does not forbid such distribution specifically.

1951

Q. 1. What are the various methods of redeeming Debentures? Discuss briefly their merits and demerits with illustrations.

Ans. All Debentures being loan taken by the Company are redeemable according to the terms of issue of the same. Since the redemption of Debentures involves huge amount of working capital going out of the business ways and means have been so devised as to disturb the working capital to the least. Among the various methods adopted the chief methods are summarised below indicating the merits as well as the demerits thereof.

(1) **Sinking fund Investment method**—Under this method an ascertained amount which along with the interest earned thereon at compound rate after the specific period will be equal to the sum required for redemption is set aside to a Sinking Fund. The amount of annual apportionment is charged to P & L Appropriation A/c and thereby creating the Sinking fund and an equivalent amount is invested each year in gilt-edged securities outside the business. The earnings on these investment is also invested in the same kind of investment increasing thereby both the Sinking fund and the Sinking fund Investment Account. At the expiry of the stipulated period the investments are disposed of and the money received therefrom is utilised in redemption of Debentures. Any balance standing in the Investment account is transferred to Sinking fund and the final balance in the latter account represents accumulated and undistributed profit. This is now transferred to Reserve Account and in course of time the same is distributed to the shareholders as 'Bonus' the payment being made either in cash or by issue of shares.

The chief merit of the method lies in the fact that the amount representing undistributed profit appropriated to Sinking fund having been invested outside the business and realised at the time of redemption of Debentures the business does not suffer the shortage of working capital because of the redemption.

The method is fraught with the risk of same losses being suffered in realising the investment; but there is also the chance of getting some profit in disposing of the investment.

Another demerit in the method is that the share holders suffer loss of dividend during the currency of the Debentures. This loss is no doubt compensated by bonus received by them out of the accumulation in Sinking Fund after the redemption of the debentures.

(2) **Sinking Fund Policy Method**—Under this method the Sinking Fund is created out of Profit in the manner as indicated above. The only difference lies in the fact that instead of investing the equivalent sum in gilt edged securities outside the business an Insurance Policy is taken and the amount of annual contribution to Sinking Fund is paid as Premium. On maturity of the Policy after the specified period the Debentureholders are paid off out of the money received from Insurance Co.

The extra merit of this method over the Sinking Fund Investment Method is that under this method there is no occasion for any loss being suffered in realising the invested amount. The receipt of amount at the time of redemption is more certain under this method.

(3) Redemption by Purchase from open market :—

Even if there is no specific obligation to redeem a company may have recourse to this method where the company will purchase its own debentures from open market. This purchase may be from a fund specially meant for such purpose or out of the company's liquid capital.

The chief merit of this method lies in the fact that the purchase is effected at a time when the market price is most favourable *i.e.*, when the debentures are quoted in the market at a considerable discount and thereby the company can manage to redeem by spending amount less than the face value of the debentures. Another merit of this method is that the company can buy at a time which suits its convenience best.

(4) Redemption by annual drawing out of capital :—

This method implies redemption of debentures out of the working capital of the business without making any arrangement for creating sinking fund. Where however the debentures are repayable only after stipulated period an appropriate amount may be invested to accumulate the sum required for redemption. A company may have recourse to this method only when the debentures had been issued for raising funds for a temporary and specific purpose ; because in such cases the company will have an excess in working capital in hand and redemption of debentures out of that will not affect the normal functioning of the Company.

In merits this method ranks first provided the company can with stand the depletion in the liquid capital. This method does not restrict the rate of dividend on ordinary shares.

(5) Redemption by annual drawing out of Profits :—

This method envisages building up of a General Reserve out of profits and redemption of Debentures out of the company's liquid capital. The treatment of the accumulated general Reserve after the Debentures are redeemed is the same as in respect of accumulation in Sinking fund. The only difference of this method with that of Sinking fund Method is that no Sinking fund Investment is made and the redemption is effected out of the working capital of the firm.

This method is not also free from the disadvantage that the shareholders are deprived of the dividend during the currency of the debentures.

Dr.	Sinking Fund Investment A/c		Cr.
	Rs.		Rs.
1st year			
To Bank A/c	1884.00	By Balance c/d	1884.00

2nd year		Rs.			Rs.
To Balance b/d		1884.00	By Balance c/d		3824.52
„ Bank A/c		1940.52			
		<u>3824.52</u>			<u>3824.52</u>
3rd year					
To Balance b/d		3824.52	By Balance c/d		5823.26
„ Bank A/c		1998.74			
		<u>5823.26</u>			<u>5823.26</u>
4th year					
To Balance b/d		5823.26	By Balance c/d		7881.95
„ Bank A/c		2058.69			
		<u>7881.95</u>			<u>7881.95</u>
5th. year					
To Balance b/d		7881.95	By Balance c/d		10,000.00
„ Bank A/c		2118.05			
		<u>10,000.00</u>			<u>10,000.00</u>

N. B. [Since no date of renewal of the lease has been given the annual contribution for the 5th year along with the amount of interest earned and received is invested. At the time of renewal of the Lease the investment will be disposed of and the proceeds will be utilised in renewal of the Lease].

At the close of the 5th. year the Lease Account will be eliminated by transfer to the Sinking Fund to the same. The entry to give effect to this adjustment will be :—

Sinking Fund A/c	Dr. Rs. 10,000.
To Lease A/c	Rs. 10,000.

(Being the transfer of Sinking fund to Lease Account for which purpose the former had been created).

Q. 2. On 1st. January, the Co-operative Housing Ltd., purchased the lease of certain premises for Rs. 10,000. It was decided to raise a Sinking Fund to accumulate this amount at the end of the lease which had 5 years to run, the rate of interest being taken at 3%.

According to the Tables, Re. 0.1884 per annum amounts to Re. 1 in 5 years at 3%. Write up the appropriate accounts, including the Interest account, for all the years. You may show your calculations in decimals. Ignore Income Tax.

Ans. The annual contribution to the Sinking Fund may be ascertained as worked out below :—

To accumulate Re. 1 in 5 years at 3% contribution is 0.1884
Therefore to " Rs. 10,000 " " contribution

will be Rs. $\frac{0.1884 \times 10,000}{1}$ = Rs. 1884.

Dr.	Sinking Fund (Lease Replacement A/c	Cr.
	Rs.	Rs.
1st year		1st year
To Balance c/d	1884.00	By Profit & Loss Appr. A/c 1884.00
2nd year		2nd year
To Balance c/d	3824.52	By Balance b/d 1884.00
		" Interest A/c 56.52
		" P & L Appropriation A/c 1884.00
	3824.52	3824.52
3rd year		3rd year
To Balance c/d	5823.26	By Balance b/d 3824.52
		" Interest A/c 114.74
		" P & L Appropriation A/c 184.00
	5823.26	5823.26
4th year		4th year
To Balance c/d	7881.95	By Balance b/d 5823.26
		" Interest A/c 174.69
		" P & L Appr. A/c 1884.00
	7881.95	7881.95
5th year		5th year
To Balance c/d	10,000.00	By Balance b/d 7881.95
		" Interest A/c 234.05
		" P & L Appr. A/c 1884.00
	10,000.00	10,000.00
To Lease A/c (transferred)	10,000	By Balance b/d 10,000

Dr.	Interest A/c	Cr.
	Rs.	Rs.
2nd year		2nd year
To Sinking Fund (transferred)	56.52	By Cash 56.52
3rd year		
To Sinking Fund (transferred)	114.74	By Cash 114.74
4th year		
To Sinking Fund (transferred)	174.69	By Cash 174.69
5th year		
To Sinking Fund (transferred)	234.05	By Cash 234.05

N. B. All calculations have been shown in decimals.

Q. 3. You are asked to prepare a Capital Redemption Scheme for the consideration of the Board of Directors. The Balance Sheet, in respect of which the scheme is required, is given below :—

HINDUSTHAN SHOE MANUFACTURES CO., LTD.

Balance Sheet as on 31-12-50

Liabilities	Rs.	Assets	Rs.
Authorised and Issued		Goodwill	25,000
Capital : 1000 6%		Freehold Property at	
Cumulative Preference		Cost	90,000
Shares of Rs 100		Leasehold Property	1,00,000
each, fully paid 1,00,000		Plant and machinery	
20,000 ordinary shares		(less Depreciation)	85,000
of Rs. 10 each, fully		Stock-in-trade	35,000
Paid	2,00,000	Debtors	40,000
Creditors	75,000	Cash at Bank	500
Bank overdraft	1,15,000	Investments (market	
Reserve Fund	70,000	value Rs. 95,000)	80,500
		Profit & Loss Account	1,04,000
	5,60,000		
			5,60,000

Note :— Cumulative Pref. dividends are in arrear for 2 years. ~~Long~~ period (50 years) will expire after 6 years.

Ans. To start with the working of the scheme we are to make some assumptions as noted below,

(i) In view of the Company's showing unsuccessful no goodwill A/c should stand in the books and the same is to be eliminated.

(ii) Depreciation of the Leasehold Premises should be written down for 44 years on fixed instalment method.

(iii) The values of Freehold Property, Stock, Debtors etc. should stand at the respective figures appearing in the Balance Sheet.

On the basis of the assumptions made above and the particulars available from the Balance Sheet the amount of loss to be adjusted by reduction of capital works out as given below :—

Loss :—

(i) P & L Account (Dr. balance)	Rs. 1,04,000	
(ii) Depreciation on Leasehold Property	Rs. 88,000	
(iii) Goodwill	Rs. 25,000	
		<hr/>
		2,17,000
Less :— (i) Reserve Fund	70,000	
(ii) Appreciation in the Value of Investment	14,500	
		<hr/>
		84,500
Total Loss to be written down to Capital	Rs.	1,32,500
		<hr/>

With the view to wipe off the loss, the following scheme for reduction of share capital is suggested for consideration of the Board of Directors.

(a) 20,000 fully paid Ordinary Shares of Rs. 10 each should be converted to equal number of ordinary shares of Rs. 10 each as Rs. 3/- per share being paid up.

(b) Cumulative Preference Shareholders are to waive their claim for arrears of dividend.

(c) Investments are to be disposed of and appropriated towards liquidating Bank overdraft.

(d) Goodwill is to be entirely written off.

(e) Depreciation on Leasehold Property for 44 years is to be charged.

(f) Any balance left after carrying out the above mentioned adjustment is to be carried to Reserve fund.

In this connection it may also be suggested that a first call @ Rs. 2/- per share be made to have the Working Capital.

On the scheme for reduction of capital given above being approved by the Board of Directors, the adjustment will be made in the books in the manner indicated below.

Dr.	Capital Reduction A/c	Cr. Rs.
To Profit & Loss A/c	By Shareholders A/c	
" balance 1,04,000	(Ordinary Share Capital being written down by Rs. 7 per share)	1,40,000
" Leasehold Property (depreciation) 88000	" Reserve fund	70,000
" Goodwill w/o 25000	" Profit on Sale of Investment	14,500
" balance— transferred to Reserved fund 7500		
2,24,500		2,24,500

BALANCE SHEET (As Reconstruction)

<i>Liabilities</i>		<i>Assets</i>	
Authorised & Issued Capital	Rs.	Freehold Property	Rs.
1000 6% Cumulative		(at cost)	90,000
Pref. Shares of Rs. 100 each		Leasehold Property	12,000
	1,00,000	(6 years to run)	
20000 Ordinary Shares		Plant & Machinery	
of Rs. 10 each	2,00,000	(Less-depreciation)	85,000
		Stock in Trade	35,000
Subscribed & Paid up Capital		Debtors	40,000
1000 6% Cumulative		Cash at Bank	500
Pref. shares of Rs. 100			
each fully paid up	1,00,000		
20,000 ord. Shares of			
Rs. 10 each on which			
Rs. 3 per Share paid up	60,000		
Sundry creditors	75,000		
Bank overdraft	20,000		
Reserve fund	7,500		
Total Rs.	2,62,500	Total Rs.	2,62,500

Q. 4. The Balance Sheet of Calco Ltd., as on 31st December, 1950 stand as under :

	Rs.		Rs.
Authorised Capital		Fixed Capital	
10,000 shares of		Assets at cost	14,30,000
Rs. 100 each		Stock-in-trade	80,000
Issued Capital :—		Sundry Debtors	30,000
8000 ordinary shares		Investments	17,000
of Rs. 100 each	8,00,000	Cash at Bank	13,000
Debentures	13,80,000	Profit and Loss A/c.	
Liabilities :			10,70,000
For goods supplied			
Rs. 4,50,000			
For Income tax			
10,000			
	4,60,000		
	26,40,000		26,40,000

The Company being in a bad way, an arrangement on the following lines has been mutually agreed upon :—

(i) The ordinary shareholders are prepared to have their Capital reduced to 5 percent of their present holding.

(ii) The Debenture holders are agreeable to have their claim reduced to 50 per cent which is to be satisfied half by the issue of 7 per cent Mortgage Debentures, and half by the issue of 8 per cent Preference Shares of Rs. 100 each.

(iii) The unsecured trade creditors are prepared to forego 20% of their dues in exchange for ordinary shares of the like amount.

(iv) The assets are to be reduced to the revalued figures as under :—

	Rs.
Fixed Capital assets	11,00,000
Stock-in-trade	50,000
Debtors	20,000
Investments	7,000

Show the ledger accounts and other entries for the completion of the scheme and prepare the final Balance Sheet.

Ans.

Journal Entries

- (1) Ordinary share Capital A/c Dr, Rs. 7,60,000
 To Capital Reconstruction A/c Rs. 7,60,000
 (Scheme of reduction of Capital of 8000 ord. shares of

Rs. 100 each to equal number of Shares of Rs. 5 per share paid up being given effect to as per special resolution dated..... adopted in).

(2) Debentures A/c Dr Rs. 6,90,000.

To Capital Reconstruction A/c. Rs. 6,90,000

(Being the reduction of the Debentureholder's claim to the extent of 50% given effect to as per Special Resolution.....).

(3) Capital Reconstruction A/c Dr. Rs. 14,50,000

To Fixed Capital Assets A/c	3,30,000
„ Stock-in-trade A/c	30,000
„ Sundry Debtors A/c	10,000
„ Investment A/c	10,000
„ Profit & Loss A/c	10,70,000

(Amount available from reduction of capital and reduction of Debenture claims being utilised in writing down the value of assets and accumulated loss in Profit & Loss Account),

(4) Debentures A/c Dr. Rs. 6,90,000.

To 7% Mortgage Debentures A/c	3,45,000
„ 8% Preference Share Capital	3,45,000

(Debenture claims being transferred to 7% Mortgage Debentures and 8% Pref. shares of Rs. 100 each in equal proportion as agreed by the Debentureholders).

(5) Sundry creditors (for goods) A/c Dr Rs. 90,000

To Ord. Share Capital A/c Rs. 90,000

(Ordinary Shares to the extent of 20% of the claim from creditors being issued as per agreement reached with them).

Dr.	Reconstruction A/c	Cr.
	Rs.	Rs.
To Sundry Assets : -		By Ordinary Share Capital A/c
„ Fixed Capital Assets		(8000 Ord Share of
3,30,000		Rs. 100 reduced to
„ Stock	30,000	equal number as Rs. 5
„ Debtors	10,000	per Share paid up)
„ Investment	10,000	7,60,000
		„ Debentures A/c
	3,80,000	„ (Reduction of 50%
„ Profit & Loss A/c		of Debenture claim)
(accumulated		6,90,000
loss w/o)	10,70,000	
	<u>Rs. 14,50,000</u>	<u>Rs. 14,50,000</u>

Dr.	Debentures A/c	Cr.
To Capital Reconstruction A/c 6,90,000	By Balance b/d	Rs. 13,80,000
„ 7% Mortgage Debentures A/c 3,45,000 (transferred)		
„ 8% Pref. Share Capital A/c 3,45,000 (transferred)		
	Rs. 13,80,000	Rs. 13,80,000

Dr.	Sundry Creditors (for goods) A/c	Cr.
To Ordinary Shares Capital A/c 90,000 (transfer of 20% claim) Balance c/d 3,60,000	By Balance b/d	Rs. 4,50,000
	Rs. 4,50,000	Rs. 4,50,000

Dr.	Ordinary Share Capital A/c	Cr.
To Capital Reconstruction A/c 7,60,000 (Reduction by 95%) „ Balance c/d 1,30,000	By Balance b/d „ S. Creditors (for „ goods) A/c 90,000 (transferred from)	Rs. 8,00,000
	Rs. 8,90,000	Rs. 8,90,000

Dr.	8% Preference Share Capital A/c	Cr.
To Balance c/d 3,45,000	By Debentures A/c (Replaced)	Rs. 3,45,000
	Rs. 3,45,000	Rs. 3,45,000

Dr.	7% Mortgage Debentures A/c	Cr.
To Balance c/d 3,45,000	By Debentures A/c (Replaced)	Rs. 3,45,000
	Rs. 3,45,000	Rs. 3,45,000

Balance Sheet as Reconstructed

<i>Liabilities</i>	Rs.	<i>Assets</i>	Rs.
Authorised Capital		Fixed Capital Assets	
.....Shares of Rs. 100 each.....		(as recorded)	
		11,00,000	
Issued Capital			
8900 ordinary Shares		Stock in Trade	
of Rs. 100 each 8,90,000		(as reduced) 50,000	
3450 8% Pref. Shares			
of Rs. 100 each 3,45,000		Sundry Debtors	
		(as reduced) 20,000	
	12,35,000		
Subscribed & Paid-up Capital		Investments	
8000 Ord. Shares of Rs. 100 each		(as revalued)	
as reduced to Rs. 5 per Share paid		7,000	
	40,000		
900 Ord. Shares of Rs. 100 each		Cash at Bank 13,000	
issued to the creditors			
as fully paid up 90,000			
3450 8% Pref. Shares			
of Rs. 100 each issued as			
fully paid in exchange of			
Debenture claim 3,45,000			
	4,75,000		
7% Mortgage Debentures	3,45,000		
Liabilities :			
For goods 3,60,000			
For Income Tax 10,000			
	3,70,000		
Total Rs. 11,90,000		Total Rs. 11,90,000	

N B. In order to implement the scheme in full details the limit of Authorised Capital is to be raised to the extent of Rs. 235000 by which it exceed the present limit.

Q. 5. (a) From the following particulars you are required to prepare a statement showing (i) the cost of material used, (ii) the percentage of works on cost to productive wages, (iii) the percentage of general on cost to works cost and (iv) the total cost :—

Stock of finished goods, 31st Dec. 1949.	28,000
Stock of Raw material on 31st Dec. 1949.	12,800

Purchase of raw materials	92,000
Productive wages	98,800
Sales of Finished goods	5,92,000
Stock of Finished goods 31st Dec, 1950	30,000
Stock of raw materials, 31st Dec., 1950	13,600
Works overhead charges	43,736
Office and General charges	35,524

(b) The Company is about to send a tender for a large plant. The Costing Department estimate that the materials required would cost Rs. 20,000 and wages to workmen would amount to Rs. 12,000. The tender is to be made at a net profit of 20% on the selling price. Show what the amount of the tender would be if based on the above percentages.

Ans. Cost Analysis showing the Relevant data

		Rs.
Raw Materials—Opening Stock	12800	
„ —Purchased	292000	
	<hr/>	
	3,04,800	
Less—Closing Stock of raw materials	13600	
	<hr/>	
		2,91,200
Materials Consumed		
Productive wages		1,98,800
		<hr/>
Prime Cost		4,90,000
Works overhead charges		43736
(22% of Productive wages) .		<hr/>
Works Cost		5,33,736
Office and general overhead charges		35,524
(6·7% of works cost)		<hr/>
	Total cost	5,69,260

The analysis given above indicates :

- (i) Cost of materials used Rs. 2,91,200
- (ii) The percentage of Works On cost to productive wages 22%.
- (iii) The percentage of office & general on-cost to works cost 6·7%
- and (iv) Total Cost ... Rs. 5,6

Any estimate to be given is to be based on the analysis given above. On the basis of this analysis the estimate of cost and tender price of the plant will work out as below :—

Estimate of Cost	
Cost of raw materials used	Rs. 20,000
Productive wages	„ 12,000
	<hr/>
Prime Cost	Rs. 32,000
Works overhead charges	
(@ 2% of Productive wages)	„ 2,640
	<hr/>
	Rs. 34,640
Works Cost or Cost of production	
Office & general overhead charges	
(@ 6.7% of works cost)	Rs. 2,320
	<hr/>
Total Cost	Rs. 36,960
	<hr/>

The tender will be given after adding 20% of the Tender price to cover profit which works out as follows :—

Selling an article at a profit of 20% on Sales means that in the Sale proceeds of Rs. 100.

Rs. 20 is profit and Rs. 80 is cost *i. e.*

On Rs. 80 (cost) a profit of Rs. 20 is earned.

This means a profit of 25% on Cost.

Now 25% of the estimated Total Cost comes to Rs. 9240.

So the price for Tender will be —

$$\text{Rs. } 36960 + \text{Rs. } 9240 = \text{Rs. } 46200$$

Q. 6. The quinquennial valuation of Republic of India Life Assurance Co., Ltd. having a paid up capital of Rs. 5,00,000 disclosed a net liability of Rs. 46,50,000 on all their policies and contracts in force on 31st December, 1940.

From the figures set out below, prepare the Revenue Account for the five years ended 31st December, 1940 and a Valuation Balance Sheet as on that date showing the surplus for the shareholders and policy-holders :—

	Rs.
Life Assurance Fund 1st Jan., 1936	... 50,00,000
Premium	... 25,80,000
Interests, Dividends and rents	... 15,20,000
Fines for revival of lapsed policies	... 1,250
Consideration for annuities granted	... 85,000
Claims paid	... 2,80,000
Reassurance balance irrecoverable	... 2,000
Expenses of management	... 2,30,000
Commission	... 1,15,000
Bonus in reduction of premium	... 3,550
Annuities paid	... 1,14,000
Surplus on revaluation of reversions purchased	... 9,000
Surrenders	... 1,70,000
Income tax	... 2,40,000
Bonus in cash	... 1,12,500

Ans. Since there is no mentioning of whether the premiums are also paid outside India Form 'G' of the fourth schedule should apply in preparing the Revenue Account.

Republic of India Life Assurance Co., Ltd.

Revenue Account

for the quinquennium ended 31st. December, 1940.

Dr.		Cr.
	Rs.	Rs.
To Claims Paid & Outs.		By Life Assurance Fund
By Death		on 1. 1. 36 50,00,000
By Maturity		„ Premiums (less
		re-assurance).
	2,80,000	(i) First year
To Annuities Paid 1,14,000		(ii) Renewal
„ Surrenders (includ-		(iii) Single
ing surrender of		
bonus) 1,70,000		25,80,000
„ Bonus in cash 1,12,500		By Consideration for
„ Bonus utilised in		Annuities granted 85,000
reduction of premium 3,550		„ Interest, dividends
To Re-assurance balance		and rents
irrecoverable 2,000		Less Income-Tax... ..
To Management		15,20,000
Expenses 2,30,000		By Other income :
„ Commission 1,15,000		(i) Fines for revival of
„ Income-Tax 2,40,000		lapsed Policies
		Rs. 1250
		(ii) Surplus on
		revaluation of
		reversion Rs. 9000
To Balance of Life		10,250
Assurance Fund at		
the close of the		
period. 79,28,200		
	91,95,250	91,95,250

The term valuation balance sheet relates to ascertainment of profit by Acturial valuation of Net liabilities representing excess of the present value of the Policies over the present value of future premiums receivable thereon. The true profit of a Life Assurance business is ascertained by comparing the Life Fund at close of a period with the Net Liabilities found on Acturial valuation. Below is given the working of a valuation Balance Sheet designed to indicate the Surplus available for dividend to shareholders as well as "with Profit"—Policyholders.

Valuation Balance Sheet

as on 31. 12. 40

	Rs.		Rs.
Net Liabilities (as per Acturial valuation)	46,50,000	Assets Constituting Life Assurance & Annuities Fund	79,28,200.
Surplus for Share holders and Policy holder.	32,78,200		
	Rs. 79,28,200		Total Rs. 79,28,200.

Besides the Revenue Account and Valuation Balance Sheet.. A seprate Balance Sheet of Life Department is compiled in Form "A" of the First Schedule. Where however there are several classes of business of an Insurance Company. A General Balance Sheet is prepared to exhibit the over all position of the business as a whole.

Q. 7. (a) Enumerate the most important clauses of a Partnership Deed.

(b) A B Co., Ltd. has a large credit balance in the Profit and Loss A/c. It is desired to make a distribution to the share holders but the liquid resources are insufficient to provide for a cash dividend. The Directors are considering the following proposals :

(i) The issue of bonus shares in lien of dividend. (ii) The payment of a cash dividend of means of a temporary bank overdraft to be secured by Debentures ; (iii) A clearance sale of stock-in-trade at reduced prices so as to obtain cash quickly for payment of a cash dividend. Give your views briefly and precisely.

Ans. (a) Amongst the various points which may be incorporated in the Deed of Partnership according to the circumstances of each case the points noted below are considered

to be most important and should constitute the items of an well-drawn Deed of Agreement of Partners. The items are :—

- (i) Name, object and tenure of the partnership.
- (ii) Amount of Capital contribution by the partners.
- (iii) Whether the partners are entitled to any interest on capital and whether interests are to be charged on partners' drawings ; in case of interest being provided the respective rates thereof need be mentioned.
- (iv) Share of each partner as to the Profit or loss of the firm.
- (v) Whether partners are entitled to any salary commission etc. as their remuneration.
- (vi) A partner's authority to nominate any other person (son, other relation, any other) as a partner of the firm.
- (vii) Rights and duties of partners as between themselves as well as with third parties.
- (viii) Extent of capacity of a partner to bind other partners by his act.
- (ix) The method of computing a retiring or deceased partner's interest including share of profit, share of goodwill etc.
- (x) The method of charging any loss arising from the insolvency of a partner to other solvent partners.
- (xi) The method of settling dispute amongst the Partners.

Besides the points furnished above a Deed of Partnership may contain various items which are considered to be of special importance according to the circumstances.

(b) The proposals on which the Directors have concentrated their consideration presuppose the non-availability of liquid cash in the hands of the Company. The payment of bonus in such circumstances in cash will involve disposal of certain assets to have the necessary fund for payment of bonus ; this procedure is fraught with the risk of losing the working efficiency of the firm because of the depletion in working Capital. The method of issuing shares to the existing shareholders in lien of bonus payable to them outweighs the difficulty which arises in case of payment of bonus in Cash. But this will no doubt lower the rate of dividend in the event of profit remaining fairly constant even after issue of shares in lien of bonus. The method of payment of bonus with the help of bank overdraft is not also free of any drawback and the same should not be resorted to unless it is found that the surplus available for bonus has been temporarily blocked up and is expected to be realised from sale of stock, collection of book debts etc. in the normal course of the business. Otherwise raising of further capital or incurring of further loan will be inevitable for repayment of bank overdraft. The method of having the required sum through clearance Sale of Stock at a reduced price

will involve suffering of same unnecessary financial loss thereby causing depletion in the working capital.

Of the methods discussed above the first one viz. by issue of share in lieu of the amount payable as bonus is considered to suit the purpose best since this method does not entail any depletion in working and liquid capital. No doubt this method is designed to lower the rate of dividend, even then the dividend which may be paid after issue of bonus shares will bear correct relation with the capital employed in earning the profits available for dividend. This method of payment of bonus is always welcomed by the shareholders since their future income is expected to increase with the better prospect of their company, requiring no further financial outlay.

Q. 8. Howrah Iron Foundry Ltd., are manufactures in addition to a general engineering and repairing business, of electric pumps of four standard sizes which they make and sell in large quantities. They desire to introduce a costing system which will show them the cost of production of each standard size of pump.

Set out briefly your recommendations so that the costing system can be efficient.

Ans. The process of manufacture of the pumps being same and the difference being only in shape and size the Multiple costing system is considered to suit the purpose best.

Under the Multiple costing system one account is maintained for the article on a columnar basis each column being meant for each type of articles distinctly differing from the others. Within the each column there will be separate subcolumn for different element of cost. It will be of great advantage for purposes this system of cost if a record is initially maintained for materials supplied for each type and thereafter deducting the value of material left over the correct estimate of the value of materials consumed will be ascertained and accordingly charged to respective types of articles. In absence of any such system the total value of materials consumed will be apportioned between the different types in the ratio of their weights. Direct labour charges will be posted to the respective types according to separate recording on the wage sheet. Chargeable expenses and over head charges will be distributed according to a predetermined principle found worthy of acceptance. Since the firm is a foundry there will be separate set of books for Casting Department and the casts will be taken as stores and will be charged to different types of pumps under the head "Materials consumed" when used. A ruling of tabular form of Elec. Pump Account under Multiple costing system is given overleaf.

Debit side

Electric Pump Account.

Date	Type—A (specification... ..)	Type—B (specification.....)	Type—C (specification.....)	Type—		
Particulars	Total Rs.	Materials Rs.	Wages Rs.	Chargeable expenses. Rs.	Factory overhead. Rs.	Office overhead. Rs.
To Materials lbs @						
" Wages						
Prime Cost						
" Factory overhead (...% of wages)						
Works Cost						
To Office over- head (...% of works cost)						
Total Cost.						

Electric Pump Account (Continued)

Credit side.

Particulars.	Type—A (specification — — —) Rs.	Type—B (specification — — —) Rs.	Type—C (specification — — —) Rs.	Type—D (specification — — —) Rs.
By Sales
„ Finished Stock Account (transferred to)
„ Work-in-Pro- gress Account
Total—				

N. B.—The columns on both the debit and credit sides of Electric Pump Account will vary according to the number of types undertaken for manufacture.

1952

Q. 1. From the following information, prepare Manufacturing Trading and Profit and Loss Accounts for the year ended December 31, 1951 and a Balance Sheet as at that date, of the firm of A, B and C :—

(a) Ledger and Cash Book Balances as at December 31, 1951 (except where otherwise mentioned) :—

Capital Accounts (Fixed) – Interest at 4% per annum				Rs.
A	...	...	...	80,000
B	...	...	...	70,000
C	...	...	...	60,000
Drawing Accounts—Interest at 3% per annum				
A	...	...	...	12,000
B	...	...	...	11,500
C	...	...	...	11,000
Loan accounts—Interest 6% per annum				
A	...	...	...	50,000
B	...	...	...	45,000
C	...	...	...	40,000
Plant and Machinery as at December 31, 1950				80,000
Furniture and Fixture „ „ „				14,000
Loose Tools „ „ „				15,000
Works-in-progress „ „ „				40,000
Purchases	...	...	...	3,40,000
Wages	...	...	...	2,80,000
Sales	...	...	...	8,50,000

Stock as at December 31, 1950

✓ Raw Materials	...	...	30,000
✓ Finished Goods	...	...	50,000
✓ Salaries	...	...	1,17,405
✓ Rent, Rates and Taxes	...	...	22,000
Electric Charges:			
Power	...	...	10,000
Office	...	...	2,000
Postages, Telegrams and Telephones	...	...	1,500
✓ Insurance Premium	...	...	3,081
✓ Printing and Stationery	...	...	2,314
✓ Charges General	...	...	27,500
✓ Sundry Debtors	...	...	1,00,000
Reserve for Bad and Doubtful Debts	...	...	5,000
Sundry Creditors	...	...	35,000
Cash in hand and at Bank	...	...	65,700

(b) At December 31, 1951, Loose Tools were valued at Rs. 16,500 ; Stock in hand at Rs. 46,000 for Raw Materials and Rs. 75,000 for Finished Goods. On the same date Works-in-Progress amounted to Rs. 57,000 and Salaries and Rent where outstanding for Rs. 14,000 and Rs. 1,900 respectively.

The Insurance Premium covered a period of 13 months.

(c) Depreciate Furniture and Fixtures at 5% and Plant and Machinery at $7\frac{1}{2}\%$.

Write off Rs. 4,000 as Bad Debts and maintain Bad Debts Reserve at $1\frac{1}{2}\%$.

All interests are to be calculated on the balance as at December 31, 1951.

(d) A, B and C share profits and losses as 8 : 5 : 3.

Ans. Manufacturing Account

for the year ended 31st December, 1951

Dr.		Cr.	
Particulars	Amount	Particulars	Amount
To Opening Stock :—		By Cost of Production	
Raw Materials	30,000	transferred to	
Work in Progress	40,000	Trading Account	
			6,01,500
	70,000		
„ Purchase of raw materials	3,40,000		

Carried over—

Dr.

Cr.

<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
Brought forward—	4,10,000	Brought forward—	
Less :—Cl. Stock of			6,01,500
Materials	46,000		
Work-in-			
Progress	57,000		
—	—1,03,000		
Materials consumed	3,07,000		
To Wages (Productive)	2,80,000		
„ Electric Power	10,000		
	—		
Prime Cost	5,97,000		
„ Depreciation charges :			
Depr. on Plant Mach.			
@ 7½%	6,000		
Less - Appreciation in			
the value of Loose			
Tools	1,500		
	—		
	4,500		
	4,500		
	—		
	6,01,500		6,01,500

Trading Account

for the year ended on 31st. December, 1951.

Dr.

Cr.

<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
To Opening Stock of		By Sales	8,50,000
Finished Product :	50,	„ Closing	
„ Cost of articles produced		stock of	
(as per manufacturing A/c)	6,01,500	Finished	
„ Gross Profit c/d	2,73,500	goods	75,000
	—		—
	25,000		9,25,000

Profit and Loss Account

Dr. for the year ended on 31. 12. 51

Cr.

Particulars	Amount	Particulars	Amount
To Salaries	1,17,405	By Gross Profit	
Add-Salary outstanding	14,000	b/d	2,73,500
	— — — 1,31,405	„ Interest on	
To Rents, Rates & Taxes	22,000	Drawing (outsg.)	
Add-Outstanding Rent	1,900	A	360
	— — — 23,900	B	345
To Postage, Telms. & Phones	1,500	C	330
„ Insurance Premium	3,081		— — — 1035
Less Unexpired Premm.	237		
	— — — 2,844		
To Electric charges (for office)	2,000		
„ Printing & Stationery	2,314		
„ General charges	27,500		
„ Depreciation :			
Furniture & Fixture	700		
„ Reserve for Bad debts			
(1½% on 96000)	1440		
Less Old Reserve	5000		
	— — —		
Excess Reserve	3560		
Less Bad debts w/o	4000		
	— — —		
Fresh Reserve	440		
To Interest on capital (outsg.)			
A	3200		
B	2800		
C	2400		
	— — — 8400		
„ Interest on Partners' Loan (outstanding)			
A	3000		
B	2700		
C	2400		
	— — — 8100		
„ Balance—Net profit transferred to partners' Drawing Accounts :			
A ($\frac{8}{16}$ share)	32715		
B ($\frac{8}{16}$ share)	20448		
C ($\frac{8}{16}$ share)	12269		
	— — — 65432		
	— — —		
	Rs. 2,74,535		Rs. 2,74,535

Q. 2. (a) A firm maintains 800 personal accounts of debtors. Considerable difficulty it experienced in agreeing the Trial Balance at the time of the annual closing, and mistakes are very often discovered in respect of the personal accounts.

Suggest a remedy and fully explain its working.

(b) The following is a summarised analysis of the accounts of the outstanding debtors of a firm at the date of the annual closing as appearing in one of its Ledgers :—

Debtors	Good sold during the year	Goods returned during the year	Cash or cheque received during the year	Discount allowed during the year	Bills of Exchange received during the year
	Rs.	Rs.	Rs.	Rs.	Rs.
A	2,763	...	1,500	...	1,000
B	6,514	23	3,200	130	3,500
C	3,987	15	2,000	40	2,200
D	5,762	...	4,100	...	...
E	9,385	117	6,300	93	3,500
F	8,426	...	5,900	...	2,300
G	4,931	82	2,200	49	3,800

• There was an outstanding balance of debtors to the extent of Rs. 3,985 at the beginning of the year.

Out of the above receipts a bill for Rs. 700 given by B was dishonoured and the charges amounted to Rs. 5.

Ans. (a) The maintenance of 800 personal accounts and casting a trial balance from time to time is no doubt offers formidable difficulties. The only remedy lies in introduction of Self Balancing Ledger System under which we can cast a separate trial balance for Debtor's Accounts only, if required. The basis of this system is that the Ledger Accounts of a firm are grouped in three separate sets of books, these three sets recording Debtors Accounts, Creditors Accounts and General Accounts. Under this system an Adjustment Ledger is maintained at the foot of each set of Accounts to record the consequential effect of the transaction in other accounts not covered by the scope of that particular set; e.g., General Ledger Adjustment A/c is maintained at the foot of Debtors Ledger so that the corresponding debit or credit which should have been given to an account or accounts in the general accounts set can be recorded in the General Ledger Adjustment Account. By maintaining the records of corresponding debit or credit in the same set of Accounts we can make the particular set of accounts self-contained and are in a position to cast a trial balance without having any reference to balances in other accounts in two other sets. If a trial balance is cast of the

debtors ledgers the total of the balances in debtors' accounts will tally with the balance shown in General Ledger Adjustment Account maintained along with the Debtor's Ledger. Similarly in casting a trial balance of General Accounts the total of the balances in all the impersonal accounts will agree with the total of the balances of Debtors Ledger Adjustment Account and Creditors Ledger Adjustment Accounts both being maintained at the foot of General Ledger. In this way we can cast separate Trial Balance of each of the three different sets of Ledger Accounts and thereby overcome the difficulty of having all the accounts of a firm balanced on a particular day for purposes of casting trial balance to verify the arithmetical accuracy of the transactions recorded. An example is given below to make the contention more clear.

Let us suppose that goods worth Rs. 500, Rs. 350 and Rs. 200 are sold to three different parties X, Y & Z. The entry in the Debtors Ledger or Sold Ledger as may alternately be called will be :

X's	Account	Dr.	500
Y's	Account	Dr.	350
Z's	Account	Dr.	200

To General Ledger Adjustment A/c 1050.

On receipt of the amounts from them the entry in the Debtors Ledger will be as follows :

General Ledger Adjustment A/c Dr. 1050

To	X's	Account	500
"	Y's	Account	350
"	Z's	Account	200

Where however the personal accounts are numerous, as in the subject case, it is advisable to sub-divide the Debtor's Ledger suitably so that each ledger does not contain unmanageable number of accounts.

(b) On the basis of the suggestion put forward above a General Ledger Adjustment Account will be maintained at the foot of Debtor's Ledger both starting with the balance of Rs. 3985 at the credit and debit respectively. Thereafter the General Ledger Adj. A/c will be credited with the total figure of sales as Rs. 41768 the corresponding debit being in respective Debtor's Accounts. A reverse entry will be with the figure for Returns Inward. General Ledger Adjustment A/c will be debited with the total amount of Cash received, B/R received and Discount allowed giving corresponding credits to the respective accounts of the Debtors. The General Ledger Adjustment Account will be credited giving corresponding debits to the particular debtors Account for the amount of Rs. 705 representing B/R dishonoured and charges thereon. The working of the accounts is given below :—

[Since no individual balances of debtor's accounts are available the postings are shown in Total Debtors Account ; in practice however the postings are made to the respective debtor's accounts].

DEBTOR'S LEDGER

Dr.	Total Debtors A/c		Cr.
To balance b/d	Rs.	By General Ledger	Rs.
„ General Ledger	3985	Adj. A/c.	337
Adj. A/c	41768	(Return Inwards)	25200
(Total Sales)		„ Do (Cash receipt)	312
„ General Ledger		„ Do (Discount	
Adj A/c	705	allowed)	16300
(B/R Dishonoured)		„ „ (Bills receivable	
		received)	
		By Balance c/d	4409
	<u>46458</u>		<u>46458</u>

Dr.	General Ledger Adjustment A/c		Cr.
To Debtors Ledger	Rs.	By Balance b/f	Rs.
A/c	237	„ Debtors Ledger	3985
(Returns Inwards)		(Sales)	
„ Debtors Ledger		„ Debtors Ledger	41768
A/c	25200	(B/R Dishounard)	705
(Total Cash receipt)			
„ Debtors Ledger			
A/c	312		
(Discount allowed			
„ Debtors Ledger)			
A/c	16300		
(B/R received)			
„ Balance c/d	4409		
	<u>46,458</u>		<u>46,458</u>

Trial Balance

Particulars	Dr.	Cr.
Total Debtor's Account balance	4409	
General Ledger Adjustment A/c.		4409
	<u>4409</u>	<u>4409</u>

In the other part of account viz in General Ledger the Total Debtors A/c will be replaced by an adjustment Ledger known as Debtors Ledger Adjustment Account.

Q. 3. The following is the summarized Balance Sheet of Bengal Traders Ltd. as at December 31, 1951 :—

Capital & Liabilities		Property and Assets	
Capital :	Rs.		Rs.
20,000 Ordinary shares of Rs. 45 each, fully paid	9,00,000	Goodwill	50,000
1,000 4% Cumulative Preference Shares of Rs. 100 each, fully paid	1,00,000	Sundry Fixed Assets	9,65,300
Loans at 6%	75,000	Sundry Current Assets	5,00,000
5 % Debentures	2,60,000		
Current Liabilities	1,80,000		
	<u>15,15,000</u>		<u>15,15,000</u>

Interest on Loans and Debentures and dividend on Preference Shares are all outstanding for one year and have not been shown as such in the Balance Sheet. The Preference Shares are preferential regarding repayment of Capital at 10 % premium.

The assets independently valued, show that the Fixed Assets are worth Rs. 12,00,000 and the current Assets Rs. 6,00,000. Compute the value of each Ordinary Share.

Ans. Intrinsic value of Shares

Book value of assets.....	Rs.
Fixed Assets	9,65,000
Current Assets	5,00,000
Good will	50,000
	<u>15,15,000</u>

Add : Appreciation in the value of :	
Fixed Assets	235,000
Current Assets	100,000
	<u>3,35,000</u>

Actual Market value of Assets	Rs. 18,50,000
Less : Creditors	1,80,000
	<u>Rs. 16,70,000</u>

Less : Liabilities for :	
5% Debentures and interest due thereon	2,73,000
6% Loan and interest due thereon	79,500
	<u>3,52,500</u>

Rs. 13,17,500

Net Assets available against Share Capital

<i>Less :</i> Amount involved in Case of redemption of Preference Shares with Premium.	Rs. 13,17,500 <u>1,10,000</u>
---	--

Net assets available for Ordinary Shares 20000 in number	Rs. <u>12,07,500</u>
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Hence each ord. share of Rs. 45 each fully paid is worth :

$$\text{Rs. } \frac{12,07,500}{20,000} = \text{Rs. } 60.38 \text{ nP. nearly.}$$

N. B. No cognizance is taken of arrears of dividend on Cumulative Pref. shares since there will be no occasion for payment of dividend in the case of winding up or sale of the firm to another Company.

Q. 4. P, Q and R are in partnership as a firm of stock and share brokers. The deed of agreement provides, amongst other things, the following :—

(a) Each partner is to get as his personal income 20% of the brokerage earned on shares purchased or sold through him ; the remaining 50% is to be treated as firm income. (b) If a customer fails to take delivery of his shares and so the firm has to pay up the money to the seller, this payment is to be regarded as a loss and is to be debited to the accounts of the partners in the proportion of 8 : 4 : 3. Also, no brokerage is earned on each transaction, and the affected shares are distributed amongst the partners in the proportion of 8 : 4 : 3. The following are the rates of brokerage on the market values of the shares negotiated

Above Rs.	5 and up to Rs. 25	4 annas per share
Above Rs.	25 and up to Rs. 50	8 annas per share
Above Rs.	100	8 annas for share
		Rs. 100 or part thereof.

From the following analysis for the year 1951 calculate the amount of each partner's earnings (brokerage and share of profit) during 1951., assuming the income of the firm from investments and other sources (besides brokerage) to be Rs. 20,305; and expenses Rs. 32,495 during 1951. Profit and losses are to be shared by P, Q and R as 4 : 3 : 3.

Analysis of Shares negotiated during 1951.

Shares Negotiated (in Gross)				Shares not honoured customers out of those negotiated (in gross)			
Market value of shares	Number of shares negotiated			Number of Shares dishonoured by customers.			Average prices at which the firm met the loss
	P	Q	R	P		R	
Between Rs. 15 & Rs. 20	30,000	50,000	0,000	180	240	120	Rs. 19
Between Rs. 25 & Rs. 30	50,000	40,000	45,000	30	90	150	Rs. 33
Between Rs. 150 & Rs. 110	20,000	10,000	8,000	15	30	45	Rs. 115

Ans. Statement total brokerage earned and the negotiating Partner's Share thereof.

Partner - P

No. (Net) of shares negotiated	Total Brokerage earned	Brokerage due to firm	Brokerage due to Partner
29820 (30000—180) shares @ 4 as. per share ...	7455		
49970 (50000—30) shares @ 8 as. per share ..	24985		
19985 (20000—15) shares @ 8 as. per share ...	9992		
	42432	21216	21216

Partner - Q

1	2	3	4
49760 (50000—240) shares @ 4 as. per share ..	12440		
39910 (40000—90) shares @ 8 as. per share ...	19955		
9970 (10000—30) shares @ 8 as. per share ...	4985		
	37380	18690	18690

Partner - R

1	2	3	4
59880 (60000—120) shares @ 4 as. per share ...	14970		
44850 (45000—150) shares @ 8 as. per share ...	22425		
7955 (8000—45) shares @ 8 as. per share ...	3977		
	41372	20686	20686

N.B. In calculations fraction of a rupee has been ignored.

Statement of total earnings of Partners.

Particulars	Firm Rs.	P Rs.	Q Rs.	R Rs.
Total Brokerage earned	60592			
Less—Loss on account of dishonoured shares :				
540 shares @ Rs. 19				
270 shares @ Rs. 33				
90 shares @ Rs. 115				
deducted to Partners' accounts in the ratio 8 : 4 : 3.		15744	7872	5904
	60592	5472	10818	14782
Income (other than brokerage)	20305			
Gross income of the firm	80897			
Less—Expenses incurred by the firm	32495			
Net income of the firm transferred to Partners' accounts in the ratio 4 : 3 : 3.	48402	19360	14521	14521
Partners' total earnings	—	24832	25339	29303

[Loss of brokerage in respect of dishonoured shares does not appear in the statement since only the brokerage in respect of share (net) negotiated and honoured has been taken into account ignoring the loss in brokerage which could have been avoided by making the calculations separately].

Q. 5. A company issued Rs. 2,00,000 in 5% Debentures of Rs. 100 each at par, repayable at the end of 5 years at a premium 6%. A Sinking Fund at 4%, compound interest is created for the redemption of the debentures.

Draw up the Debenture Redemption Fund Account for the five year.

[Re 1 per annum at 4% compound interest amounts to Rs. 5'4163 in 5 years].

Ans. The total amount which will be required for redemption of Debentures is :—

2000 Debentures of	
Rs. 100 each	Rs. 2,00,000
Premium @ 6%	
on Rs. 2,00,000	Rs. 12000

Total Rs. 2,12,000

To accumulate this amount after 5 years a Sinking Fund carrying 4% interest on investment is to be created the annual contribution therefore being computed as follows :—

$$\frac{1 \times 212000}{5.4168} = \text{Rs. } 39141.11 \text{ nP.}$$

Dr.	Debenture Redemption Fund	Cr.
	Rs. nP.	Rs. nP.
1st year		1st year
To Balance c/d	39141.11	By P & L Appropriation A/c 39141.11
2nd year		2nd year
To Balance c/d	79847.87	By Balance b/d 39141.11
		„ Interest A/c 1565.65
		„ P & L Appropriation A/c 39141.11
	79847.87	79847.87
3rd year		3rd year
To Balance c/d	122182.89	By Balance b/d 79847.87
		„ Interest A/c 3193.91
		„ P & L Appropriation A/c 39141.11
	12 182 8	122182.89
4th year		4th year
To Balance c/d	166211.32	By Balance b/d 122182.89
		„ Interest A/c 4887.32
		„ P & L Appropriation A/c 39141.11
	1,66,211.32	1,66,211.32
5th year		5th year
To General Reserve (transferred)	2,12,000	By Balance b/d 166211.32
		„ Interest A/c 6647.57
		„ P & L Appropriation A/c 39141.11
	Rs. 2,12,000	Rs. 2,12,000

N. B. Last year's interest has been so accounted for as to make the fund equal to the Stipulated amount i.e. Rs. 2,12,000.

Q. 6. The new Co., Ltd., was formed to take over the business of the Old Co. Ltd., of which the Balance Sheet stood as follows :

Capital & Liabilities		Property & Assets	
Capital :	Rs. |		Rs.
40,000 Ordinary Shares of Rs. 10 each fully paid	4,00,000	Land and Buildings	1,75,000
Reserve	1,00,000	Plant & Machinery	1,25,000
Sundry Creditors	80,000	Furniture & Fixture	10,000
Profits & Loss A/c.	20,000	Sundry Debtors	2,15,000
		Stock	45,000
		Cash in hand & at Bank	30,000
	<hr/> 6,00,000		<hr/> 6,00,000

The purchases consideration was Rs. 100,000 payable in cash ; Rs. 100,00,000 by the allotments of 1,000 4% Debentures of Rs. 100 each ; and three fully paid shares of Rs. 10 each of the New Co. Ltd. in exchange for four fully paid shares of Rs. 10 each of the Old Co. Ltd.

The assets are to be taken over at their book values.

The Nominal Capital of the New Co. Ltd. was Rs. 50,00,000. divided into 50,000 Ordinary Shares of Rs. 10 each. Out of this 30,000 shares had been allotted to the public and the Application money (Rs. 2/8 per share) and allotment money (Rs. 2/8 per share) had been received in cash in full.

On the due date the cash consideration was paid the stipulated debenture were issued as fully paid and the Venders' Shares were allotted.

The Preliminary Expenses amounted to Rs. 10,000.

Give Journal entries to open the books of the New Co., Ltd. and draw up the opening Balance Sheet.

Ans. In the books of New Co. Ltd.

The purchase consideration may be arrived at as follows :—

Rs. 1,00,000 in cash.

Rs. 1,00,000 by issue of 1000 4% Debentures of Rs. 100 each.

Rs. 3,00,000 by issue of 30000 $\left(\frac{40000 \times 3}{4} \right)$

Shares of Rs. each

Rs. 5,00,000

Journal Entries.

- (1) Land & Building A/c Dr. Rs. 1,75,000
 Plant & Machinery A/c Dr. Rs. 1,25,000
 Furniture & Fixtures A/c Dr. Rs. 10,000
 Sundry Debtors A/c Dr. Rs. 2,15,000
 Stock A/c Dr. Rs. 45,000
 Cash and Bank (balance) A/c Dr. Rs. 30,000
 To Sundry Creditors A/c 80,000
 ,, Old Co Ltd. (Purchased) A/c 5,00,000
 ,, Capital Reserve A/c 20,000
 (Assets & Liabilities of the old Co Ltd. taken over being incorporated in accounts).
- (2) Old Co. Ltd. A/c Dr. Rs. 4,00,000.
 To Share Capital A/c Rs. 300,000
 ,, 4% Debentures A/c Rs. 1,00,000
 (30000 Shares of Rs. 10 each and 1000 4% Debentures of Rs. 1000 being issued to the vendors in part satisfaction of the consideration for purchase of their affairs).
- *(3) Bank A/c Dr. Rs. 75000.
 To Share Application A/c Rs. 75000.
 (Application money @ Rs. 2/8/- per Share in respect of 30000 Shares of Rs. 10 each being received).
- (4) Share Application A/c Dr. Rs. 75000
 To Share Capital A/c Rs. 75000.
 (Application money in respect of 30000 Shares being transferred to Share Capital Account).
- (5) Shares allotment A/c Dr. Rs. 75000
 To Share Capital A/c Rs. 75000.
 (Allotment money @ Rs. 2/8/- per share being due and called on 30,000 Shares of Rs. 10 each).
- *(6) Bank A/c Dr. Rs. 75000
 To Share Allotment A/c Rs. 75000.
 (Allotment money being received).
- *(7) Old Co. Ltd. A/c Dr. Rs. 1,00,000.
 To Bank A/c Rs. 1,00,000
 (Amount being paid to the Vendor Co.)
- *(8) Preliminary Expenses A/c Dr. Rs. 10,000.
 To Bank A/c Rs. 10,000
 (Preliminary Expenses being incurred).
- (9) Capital Reserve A/c Dr. Rs. 10,000
 To Preliminary Expenses A/c Rs. 10,000
 (Preliminary Expenses being entirely written down to Capital Reserve representing an item of capital gain).
- N. B.** Normally no journal entry is passed in respect of items marked * above. But since ledger accounts have not been required in the Sum journal entries in respect of the transactions which could have directly been posted in Cash book are furnished above.

NEW CO. LTD.
Balance Sheet—opening as on

<i>Liabilities</i>	<i>Amount</i>	<i>Assets</i>	<i>Amount</i>
Authorised Capital		Land and	
... .. shares of Rs. 10 each.		Buildings	1,75,000
		Plant and	
Issued & Subscribed		Machinery	1,25,000
Capital.		Furniture and	
60,000 shares of Rs. 10 each	6,00,000	Fixtures	10,000
		Sundry Debtors	2,15,000
Calledup & Paidup Capital		Stock	45,000
30,000 shares of Rs. 10 each		Cash in hand and	
issued to the vendor's as fully		at bank	70,000
paid up	3,00,000		
30,000 shares of Rs. 10 each			
issued to the public as Rs. 5			
per share calledup and fully			
paid	1,50,000		
	4,50,000		
Debentures - 4% Debenture			
of Rs. 100 each issued to the			
vendors.	1,00,000		
Sundry Creditors	80,000		
Capital Reserve	20,000		
Less Prel. Expenses			
written off	10,000		
	10,000		
Total Rs. 6,40,000		Total Rs. 6,40,000	

Note : The limit of authorised capital, as stated in the sum falls short of the total of issued share capital ; hence before giving effect to the scheme the company will have to move for raising the limit of authorised capital in the usual manner.

Q. 7. (a) Explain what is meant by "Contract of Indemnity" and "Insurable Interest."

What are the points of time at which insurable interest must exist in the following classes of insurance :—

(i) Life Assurance ; (ii) Fire and Accident Insurance ; (iii) Marine Insurance ?

(b) X owes Rs. 15,000 to Y for goods purchased. Being unable to meet this liability, X assigns his life policy of Rs. 25,000

to Y on February 5th, 1949, and obtains a complete discharge. Premium on the policy, payable on 10th January each year (including days of grace), is Rs. 1,375 per annum. In view of X's old age, Y decides to pay the annual premium and keep the policy alive.

X dies on 7th March, 1952, and the policy money is received by Y on 25th March, 1952.

Y closes his accounts on March, 31 every year.

The surrender values of the policy were :—(a) Rs. 10,385 at the date of assignment ; (b) Rs. 10,400 at March 31, 1946 ; (c) Rs. 11,147 at March 31, 1950 ; (d) Rs. 12,011 at March 31, 1951.

In Y's books, show the Ledger Account of X and the Life Policy Account of X and calculate the net profit or loss of Y on the policy.

Ans. (a) According to Sec. 124 of the Indian Contract Act a contract of indemnity is one whereby one person undertakes the liability to indemnify the other any loss sustained by the latter due to happening of Specific contingency. As for example, if A promises to B to make good the loss which B may have to suffer in consequence of his entering into a contract of Sale with C, it is a contract of indemnity. Insurance may be said to be a contract of indemnity whereby the Insurer undertakes to indemnify the person insured for a Specific amount of loss against the consideration of a periodical payment of a fixed sum as premium.

No benefit under the insurance method can be claimed unless the person claiming the benefit has an interest on the subject matter in respect of which the insurance is effected. This provision is known as "**Insurable Interest**". The principle of insurable interest restricts the scope of insurance only to the extent of being indemnified for the loss which directly affects the person covered by the insurance ; Otherwise insurance contracts would have been wagering contracts. One cannot earn any profit by taking up a fire Insurance Policy in respect of a house belonging to another person as a former has no insurable interest. The element of insurable interest must exist in all cases of insurance but the existence of the same is to be at different times in respect of different kinds of insurance. The actual time at which the insurable interest must exist in respect of the different kinds of insurance are indicated below :

(i) **Life Assurance**—Insurable interest must be in existence at the time the policy is effected.

(ii) **Fire and Accident Insurance**—Insurable interest must be there at the time of maturity of the policy. i. e. at the time of happening the contingency.

(iii) **Marine Insurance**—Insurable interest must be there at the time the loss actually occurs.

(b) Different methods may be followed for maintaining the records of the transaction. One method which is considered to be more specific in indicating the actual profit or loss in respect of the policy is furnished below. In proceeding with the solution it may be assumed that the Policy Account should not be shown in accounts at a figure higher than the surrender value.

On receipt of the Policy from X. X's Life Policy Account will be debited by giving corresponding credit to X's Account and the balance in the latter account being transferred to Bad debt Suspense Account. Payments of annual premium will be posted to the debit of the Policy Account and the Policy account will be brought down to surrender value level at each closing date by transferring the difference to Bad debts Suspense Account. On maturity of the Policy the Policy Account will be credited with the amount received from the Insurer; Baddebt Suspense Account will be re-transferred to Policy Account. The balance in the Policy Account will represent profit earned in respect of the Policy. To Safeguard the accumulation in Baddebts Suspense Account a reserve for the equivalent amount may be raised by charging to Profit & Loss Account and on the Policy affairs having been finalised the balance in the reserve account maintained for this purpose may be transferred to General Reserve. The detailed working of the accounts is furnished below :

Dr.	X's A/c		Cr.
	Rs.		Rs.
To Balance b/d	15000	5th Feb. 1949.	
		By X's Life Policy A/c	10385
		„ Baddebts Suspense A/c	
		(transferred)	4615
	<hr/>		<hr/>
	15000		15000

Dr.	X's Life Policy A/c		Cr.
	Rs.		Rs.
1949, Feb. 5.		By balance c/d	10400
To X's Account	10385		
March 31			
Baddebt Suspense A/c	15		
	<hr/>		
	10400		10400

April 1949.		1950, March 31.	
To Balance b/d	104 0	By Baddebt	
Jan. '50 To Cash	1375	Suspense A/c	628
		Balance c/d	11147
	<u>11775</u>		<u>11775</u>
April 1950.		1951, March 31.	
To Balance b/f	11147	By Baddebt Suspense A/c	511
Jan. '51. Cash	1375	By Balance c/d	12011
	<u>12522</u>		<u>12522</u>
April 1951.		1952, Mar. 25.	
To Balance b/f	12011	By Cash	25000
1952, Jan. '10			
To Cash	1375		
March 25			
Baddebt Suspense	5739		
(transferred)			
March 31.			
To Profit	5875		
	<u>25000</u>		<u>25000</u>

Dr.	Baddebt Suspense A/c	Cr.
	Rs.	Rs.
5th Feb. 1949.		1949, March 31
To X's Account	4615	By X's Policy Account 15
	<u>4615</u>	" Balance c/d 4600
		<u>4615</u>
April 1949		
To Balance b/d	4600	1950, March 31
1950, Mar. 31		By Balance c/d 5228
To X's Policy A/c	628	
	<u>5228</u>	<u>5228</u>
April, 1950		1951, March 31
To Balance b/d	5228	By Balance c/d 5739
1951, March 31		<u>5739</u>
To X's Policy A/c	511	
	<u>5739</u>	
April 1951		1952, March
To Balance b/d	5739	By X's Policy A/c
		(transferred) 5739

Q. 8. (a) Some of the materials issued to a work order have been found to be in excess. Should they be returned to the Stores or transferred to some other work order where they may be in immediate demand? Give reasons for your answer.

(b) At the time of the annual closing of accounts, there are some works in progress. Overheads are not charged on uncompleted works; at the same time, if overheads are not shown in the accounts, reconciliation between cost and financial accounts will not be possible. How would you proceed in the matter?

On the basis of the following information, prepare the necessary closing Cost Journal entries in order to incorporate in the books of account complete information relating to the works in progress.

Works in Progress	Rs.
Materials Issued	80,000
Wages Paid	75,000
Chargeable Expenses Incurred	5,000

The factory Overhead is 60% of Wages and Office Overhead 25% of Factory Cost.

Ans. (a) The usual method of dealing with the excess materials at the sight of a particular job is to return the same to Store by entering in Stores Returned Notes. Although as a principle transference of materials and Stores from one job directly to another is strictly forbidden in a sound system of costing yet the occasion may so arise where passing of the goods from one job to another through Stores Department causes delay and involves unnecessary carrying charges and wastages in transit. In such cases however direct transfer of materials from one job to another is permissible. In order to have this transfer duly noted in the Material Analysis Book maintained in the Stores Department the foreman of the job transferring the materials will enter the goods in Stores Transfer Note and after having the same signed by the foreman of the other job will send to the costing clerk in the costing Department. In compiling the Cost analysis both Stores Returned and Stores Transferred will be posted against the total of the Requisition and thereby the net cost of materials consumed in a particular job will be ascertained.

(b) Since the reconciliation of Cost Accounts with Financial Account is not possible unless a proper account is made for proportionate allocation of on cost burden to Work-in-progress, a method is adopted where by the proportion of Works On cost and Office on cost attributable to Works-in Progress are recorded in two separate accounts created for this purpose. The accounts are 'Works Oncost on Works-in-Progress' and are of the nature of a Suspense Account. At the close of each financial period On cost or Overhead on Works-in-Progress Accounts are

Sale or Return Journal

[illegible]

Sale or Return Day Book

[illegible]

Although proforma of Sale or Return Day book has been furnished above it is also the fact that most of the firms having transactions on Sale or return basis use the conventional form of Sales Day book.

Recording of transactions under Sale or Return system :—
On Sending the goods the first part of the Day book is filled up and by the time of closing no entry is made in the second and third part of the same the figure is shown in the Balance Column.

On receipt of customer's approval the entry is made in the second part wherefrom the posting will be given to the respective customer's accounts in the General Ledger. The Sales Account in the General Ledger will be posted with the monthly total of the postings in the Second group Columns.

On receipt of goods returned the third part of the Day Book (as illustrated) will be filled up. No postings to any other Ledger accounts are made in respect of entries made in the first and third parts of the Day Book. At the closing time the amounts in respect of any goods for which neither the Customer's approval has been received nor has the consignment been returned by the customers are posted in the Balance Column and thus the Sale or Return Day Book is made Self-contained. The total of the postings in the first column of the Sale or Return Day Book will agree with the Grand total of postings made in the other three columns of the Day book. In order to make the recordings of the transactions under Sale or Return basis completely separate and Self balanced two other accounts *viz.* Goods Sent on Sale or Return Account, Customers temporary Account opened and in these cases conventional proforma of Sales Day book is followed. Under this method all goods Sent on Sales or Return basis are entered in the Day book and therefrom postings are made to the debit of the Customer's temporary accounts with the respective amounts. The monthly total of the entries in the Day book is posted in the Goods Sent on Sale or Return Account. On receipt of Customer's approval entries are made in the first part of the Sale or Return Journal wherefrom postings are made to the debit of the Customer's Account in the General Ledger and to the credit of the Customer's temporary account opened for the purpose Goods sent on Sale or Return Account will be debited and Sale Account in the General Ledger will be credited with the monthly total of the amount column in the Sale or Return Journal (as illustrated) Reverse will be the entries in the Sale or Return Ledger Accounts for return of goods by the customers. Postings in the General Ledger accounts are made only when the Customer's Confirmation as to the purchase of the goods is received.

Q. 2. The firm, P. & Co., with its Head Office in Calcutta, has a Branch in London.

At the end of each year (December 31), a Trial Balance sent by the Branch in sterling currency is converted into rupee currency at the Head Office.

The following Trial Balance for the year has been compiled at the Branch as on December 31, 1952 :—

	£	s.	d.	₹	s.	d.
Bills Receivable ...	1,953	1	8			
Sundry Debtors ...	3,890	16	8			
Sundry Creditors ...				977	10	0
Purchases ...	11,000	0	0			
Sales ...				18,333	6	8
Furniture and Fittings						
(Jany. 1) ...	1,000	0	0			
Furniture and Fitting						
(Purchased on May 10)	175	0	0			
Stock (Jany. 1) ...	1,837	10	0			
Establishment charges	3,208	6	8			
Rent Rates and Taxes	366	13	4			
Sundry Office Expenses	1,375	0	0			
Depreciation on Furniture and						
Fittings	128	6	8			
Remittances to Head Office	1,468	10	6			
Head Office Account				7,859	2	2
Cash in hand and at Bank	766	13	4			
	27,169	18	10	27,169	18	10

The Stock in hand on December 31, 1952, was £2,108 6s. 8d.

The rates of exchange were :—

From December 31, 1951 to June 30, 1952—1s. 11d. to the rupee.

From July 1, 1952 to December 31, 1952—1s. 11d. to the rupee.

In the Calcutta books, the balance of the London Branch Account and of the Remittances from London Branch Account appear as Rs. 84,148 and Rs. 15,009 respectively.

The original Furniture and Fittings were bought when the rate of exchange was 1s. 8d. to the rupee.

Convert the above Trial Balance into rupee currency. ✓

Ans. London Branch Trial Balance (as converted)
as on 31. 12. 52.

<i>Particulars</i>	<i>Rate of exchange</i>	<i>Amount</i> Rs.	<i>Amount</i> Rs.
Bills Receivable	1s-11d	20380	
Sundry Debtors	"	40600	
Sundry Creditors	"		9000
Purchases	1s-10d	1,20,000	2,00,000
Sales	"		
Furniture & Fittings	1s-9d	11428	
Furniture Purchased	1s 9d	2000	
Stock 1. 1. 52.	1s 9d	21000	
Establishment Charges	1s-10d	35000	
Rents, Rates & Taxes	1s-10d	4000	
Sundry Office Expenses	1s-10d	15000	
Depreciation on Furniture & Fittings	1s-10d	1400	
Remittance to H. O		15009	84148
Head Office Account balance			
Cash in hand and at Bank	1s-11d	8000	669
Difference in exchange			
		2,93,817	2,93,817

.....Rs. 22000 (@ 1-11d).

The Principles on which the different rates of exchange have been applied are as follows :—

- (i) Floating Assets and Liabilities are converted at the rate ruling on 31. 12. 52 *i. e.* at the date of closing.
- (ii) Nominal Accounts are applied with the average of the different rates ruling throughout the year.
- (iii) Fixed assets are converted at the rate actually in force on the date of acquisition of the same.

Q. 3. A and B enter into a Joint Venture for guaranteeing the subscription at per of 1,00,000 share of Rs. 10 each of a joint stock company. They agree to share profits and losses in the ratio of 2 : 3. The terms with the company are : $4\frac{1}{2}\%$ commission in cash and 6,000 shares of the company as fully paid up.

The public take up 88,000 of the shares and the balance shares of the guaranteed issue are taken up by A and B who provide cash equally. The commission in cash is taken by the partners in the ratio of 4 : 5.

The entire share-holding of the joint venture is then sold through brokers : 25% at a price of Rs. 9 ; 50% at a price of Rs. 8-12 ; 15 % at a price of Rs. 8-8 and the remaining 10% are taken over by A and B equally at Rs. 8 per share. The sale proceeds of the shares are taken by the partners equally.

Prepare a Joint Venture Account and the separate accounts of A and B in the books of B and A respectively showing the adjustment of the final balance between A and B. Ignore interest and income tax.

Ans. Dr.	Joint Venture A/c	Cr.
	Rs.	
To Joint A/c A	60,000	By Jt. Account A
„ Joint A/c B	60,000	(Amount of Commission)
(Cash Contribution towards cost of 12000 unsold shares)		20,000
		„ Jt. Account B
		(Amount of Commission)
		25,000
Joint A/c A	32640	„ Joint A/c A
($\frac{2}{3}$ th Shares of Profit)		Sale products of :
Joint A/c B		2250 @ Rs 9 20250
($\frac{1}{3}$ th Share of profit)	48960	4500 @ Rs. 8/12 39375
		1350 @ Rs. 8/8 11475
		———— 71,100
		„ Joint A/c B
		Sale proceeds of :
		2250 @ Rs. 9 20250
		4500 @ Rs. 8/12 39375
		1350 @ Rs. 8/8 11475
		———— 71,100
		„ Joint A/c A
		(Share taken up
		900 @ Rs 8) 7,200
		„ Joint A/c B
		(Share taken up
		900 @ Rs. 8) 7,200
		————
	Rs. 2,01,600	Rs. 2,01,600

Dr.	In the books of A— Joint Account B		Cr.
	Rs.		Rs.
To Jt. Venture A/c Cash	60,000	By Cash (Share of Commission)	20,000
(Purchase of shares)		„ Cash (Sale proceeds of Shares)	71,100
„ Jt. Venture A/c (Share of profit)	32640	„ Shares in the Company	7,200
„ Balance receivable	5660		
	_____		_____
	Rs. 98300		Rs. 98300

Dr.	In the books of B—Joint Account A		Cr.
	Rs.		Rs.
To Joint Venture A/c		By Cash (Share of	
Cash 60,000		Commission)	25,000
(Purchase of Shares)		Cash (Sale proceeds	
Joint Venture A/c 48,960		of Shares)	71,100
(Share of Profit)		Shares in the	
		Company	7,200
		Balance payable	5,660
	<hr/>		<hr/>
	Rs. 1,08,960		Rs. 1,08,960

Note :—The amount of Rs. 5660 will be paid by B to A and thereby the accounts in both the partner's books will be closed.

Q. 4. A company has an authorised and subscribed share capital of 50,000 Ordinary Shares of Rs. 100 each and a General Reserve of Rs. 40,00,000. The Board decides to increase the authorised share capital to 10,00,000 Ordinary Shares of Rs. 10 each and to distribute 75% of the General Reserve as bonus to the present shareholders in the shape of fully paid new shares of the company at par. The rest of the increased share capital was issued to the public on the following terms Rs. 3 on application together with a premium of Rs. 5 per share payable with the application, Rs. 3 on allotment, Rs. 2 on the first call and Rs. 2 on the second call. The public issue was 60% over-subscribed and so allotments were made pro rata. One applicant for 800 shares failed to pay the second call money.

Indicate the legal procedure to be complied with for giving effect to the above decision of the Board, also give the necessary Journal entries (including Cash transactions) for recording the above transactions.

Ans. Raising of the limit of authorised Capital is subject to approval by the Registrar of Joint Stock Companies and to move the Registrar a special resolution to this effect will have to be passed in a General Meeting of the Shareholders. The Memorandum will have to be supplemented to this effect and the additional stamp duty will have to be paid. After complying with these formalities the company can raise the limit of Authorised Capital and can issue shares to that extent. The entries to give effect to the scheme, as accepted, will be as follows :—

(1) Reserve fund Dr. Rs. 30,00,000.

To Bonus to Shareholders A/c. Rs. 30,00,000

(Being the declaration of 75% of accumulated reserve as 'Bonus' as per resolution

- (2) Bonus to Share holders A/c Dr. Rs. 30,00,000.
 To ordinary Share Capital A/c Rs. 30,00,000.
 (Being the issue of 30,00,000 Ord. Shares of Rs. 10 each to the existing shareholders in satisfaction of the bonus due to them).
- (3) Bank A/c Dr. Rs. 25,60,000
 To Ord. Share Application A/c Rs. 25,60,000.
 (Application money of Rs. 3 along with Premium of Rs. 5 per Share being received in respect of 3,20,000 Shares of Rs. 10 each).
- (4) Share Application A/c Dr. Rs. 16,00,000.
 To Share Capital 6,00,000
 ,, Premium on Issue of Shares . 10,00,000.
 (Application money and premium received along with in respect of 2,00,000 Shares being transferred to ord. share Capital and Premium A/cs respectively).
- (5) Share Allotment A/c Dr. Rs. 6,00,000
 To Ord. Share Capital A/c Rs. 6,00,000.
 (Allotment money @ Rs. 3 per share being due on 2,00,000 Shares of Rs. 10 each).
- (6) Share application A/c Dr. Rs. 8,40,000
 To Calls-in-advance A/c Rs. 8,40,000.
 (Money received in respect of 1,20,000, shares representing 60% over subscribed shares being transferred to call-in-advance account).
- (7) Share application A/c Dr. Rs. 1,20,000
 To Bank A/c Rs. 1,20,000.
 (Amount being returned to the applicants at the rate of Rs. 1 per Share on 1,20,000 Shares).
- (8) Bank A/c Dr. Rs. 2,40,000
 Calls-in-advance A/c Dr. Rs. 3,60,000
 To Share Capital A/c Rs. 6,00,000.
 (Allotment money being received in cash Rs. 240,000 and Rs. 3,60,000 being adjusted from calls-in-advance Account).
- (9) Ord. Share 1st Call A/c Dr. Rs. 4,00,000
 To Ord. Share Capital Rs. 4,00,000.
 (1st Call money being due @ Rs. 2 per Share on 2,00,000).
- (10) Bank A/c Dr. Rs. 1,60,000
 Calls-in-advance A/c Dr. Rs. 2,40,000
 To Share 1st Call A/c Rs. 4,00,000.
 (1st. Call money being accounted for).
- (11) Ord. Share 2nd Call A/c Dr. Rs. 4,00,000
 To Ord. Share Capital A/c Rs. 4,00,000.
 (Second Call money @ Rs. 2 per Share being due).

- (12) Bank A/c Dr. Rs. 1,60,000
 Call-in-advance A/c Dr. Rs. 2,40,000.
 To Share 2nd. Call A/c Rs. 4,00,000
 * (Second Call money being accounted for).

N. B. The Company's old Shares will have to be converted to 5,00,000 shares of Rs. 10 each.

Q. 5. On January 1, 1952, a trader had a stock of packages valued at cost at Rs. 15,000 ; out of this, packages costing Rs. 3,000 were in the hands of customers. When packages are sent out to customers they are charged at $33\frac{1}{3}\%$ above the cost price. When packages are returned credit for full charged value is given. During 1952, packages costing Rs. 60,000 have been despatched to customers and they have been given credit for Rs. 78,000 on account of returns. Packages costing Rs. 1,200 have been retained by the customers. At the end of the year, the stock of packages in the hands of the trader, besides those in the hands of the customers, are valued at Rs. 13,500.

Write up the necessary Ledger Accounts in the trader's books.

Ans. Dr.	Package Consignment A/c		Cr.
	Rs.		Rs.
To Balance b/f	4000	By Sundries	78000
„ Sundries	80000	„ Debtor's A/c	1600
		(Packages retained)	
		By Balance c/d	4400
	Rs. 84,000		84000

Dr.	Package Consignment Suspense A/c		Cr.
	Rs.		Rs.
To Packages A/c	19,500	By Balance b/f	1000
„ Debtor's A/c (Profit)	400	„ Packages A/c	20,000
„ Balance c/d	1,100		
	21,000		21,000

Dr.	Debtors A/c		Cr.
	Rs.		Rs.
To: Package Consignment (Sale)	A/c 1600	By Bank A/c	1600
	1600		1600

Packages with customers will appear in the closing Balance Sheet as follows.

Asset Side.

Packages on Consignment	4400
Less : Package Suspense A/c	1100
	<u>Rs. 3300</u>

Stock of Package with the trader will appear at cost at the figure ascertained as Rs. 13500.

N. B. The Principles followed here are akin to the system of charging goods on consignment on the basis of proforma invoice made out after loading a percentage on cost.

Q. 6. A mine is taken on lease at a minimum rent of Rs. 10000, per annum merging into a royalty of Re. 1 per ton of the ore raised ; with a right to recoup short working during the first three years of the lease.

The raisings for the first five years were : First year, 2,000 tons ; Second year, 5,000 tons ; Third year, 15,000 tons ; Fourth year, 18,000 tons ; and Fifth year, 20,000 tons.

Write up the Ledger Accounts for Royalty, Redeemable Dead Rent and the Landlord (showing the annual payments), based on the above information.

Ans. Dr.	Royalty A/c		Cr.
	Rs.		Rs.
1st year		1st year	
To Landlord's A/c	<u>2,000</u>	By Trading A/c	<u>2,000</u>
		(transferred)	
2nd year		2nd year	
To Landlord's A/c	<u>5,000</u>	By Trading A/c	<u>5,000</u>
		(transferred)	
3rd year		3rd year	
To Landlord's A/c	10,000	By Trading A/c	<u>15,000</u>
„ Redeemable Dead		(transferred)	
Rent A/c	<u>5,000</u>		
		4th year	
4th year		By Trading A/c	<u>18,000</u>
To Landlord's A/c	<u>18,000</u>	(transferred)	
		5th year	
5th year		By Trading A/c	<u>20,000</u>
To Landlord's A/c	<u>20,000</u>	(transferred)	

Dr.	Redeemable Dead Rent A/c		Cr.
	Rs.		Rs.
1st year		By Balance c/d	8000
To Landlord's A/c	8000		
2nd year		By Balance c/d	13000
To Balance b/f	8000		
„ Landlord's A/c	5000		13000
	13,000		
		By Royalty A/c	5000
3rd year		„ Balance *	8000
To Balance b/f	13000	(irredeemable)	
	13,000		13,000

* This item will appear in the Balance Sheet as Expenses Capitalised and will be written down in future.

Dr.	Landlord's A/c		Cr.
	Rs.		Rs.
1st year		1st year	
To Bank A/c	10,000	By Royalty A/c	2000
		„ Redeemable Dead Rent A/c	8000
	10,000		10,000
2nd year		2nd year	
To Bank A/c	10,000	By Royalty A/c	5000
		„ Redeemable Dead Rent A/c	5000
	10,000		10,000
3rd year		3rd year	
To Redeemable Dead Rent A/c	5000	By Royalty A/c	15000
„ Bank A/c	10,000		
	15,000		15,000
4th year		4th year	
To Bank A/c	18,000	By Royalty A/c	18,000

Adv. A/c - 7

Dr.	Landlord's A/c (continued)	Cr.
5th year	5th year	
To Bank A/c	By Royalty A/c	
20,000	20,000	
<u>20,000</u>	<u>20,000</u>	

Q. 7. From the following particulars for the year ended December 31, 1952 prepare, under the Double Account system, the (i) Receipts and Expenditure on Capital Account and (ii) General Balance Sheet of an Electric Supply Company :—

Capital	Rs.	Rs.
✓ Authorised : 10,000 Ordinary Shares of Rs. 1,000 each Rs. 1,00,00,000		
✓ Issued, Subscribed and Paid up : 6,000 Ordinary Shares of Rs. 1,000 each, Rs. 800 per share paid up		48,00,000
✓ 6% Debentures ...	...	14,00,000
Depreciation Fund ...	...	5,00,000
✓ Building ...	12,00,000	
✓ Freehold Lands ...	9,00,000	
✓ Plant and Machinery ...	23,35,000	
✓ Mains ...	4,60,000	
✓ Sundry Machine Parts ...	50,000	
✓ Meters ...	40,000	
✓ Instruments and Appliances	64,000	
Stock and General Stores ...	3,76,000	
Office Furniture ...	30,000	
Fuel ...	45,000	
Sundry Machine Room Materials (Lubricants, Jute-waste, etc.)	10,000	
Sundry Creditors ...	...	1,70,000
Sundry Debtors ...	3,50,000	
Investments ...	9,00,000	
Cash in hand and at Bank	7,90,000	
Balance transferred from Net Revenue Account ...	...	6,30,000
	<u>75,50,000</u>	<u>75,50,000</u>

Form III—Prescribed under the Indian Electricity Act.

CAPITAL ACCOUNT

Dr. .

for the year ended 31st. December, 1952.

Cr.

Capital Expenditure	Expenditure upto the previous year	Expenditure during the year		Total expenditure to 31.12.52	Capital Receipts	Receipts upto end of previous year		Receipts during the year	Total Receipts to 31.12.52
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.
Buildings	12,00,000	By Ordinary shares of Rs. 1000 each, Rs. 800 per share being called up. By 6% Debentures	...	...	...	48,00,000
Freehold Land	9,00,000		...	...	...	...
Plant and Machinery	23,35,000		...	...	...	...
Mains	4,60,000		...	...	...	...
Meters	40,000		...	...	...	...
Sundry Machine Parts	50,000		...	...	...	14,00,000
Instruments Appliances	64,000		...	...	...	...
General Stores	3,76,000		...	...	...	...
Office Furniture	30,000		...	...	...	...
Total Expenditure	54,55,000	Total Receipts	...	...	...	62,00,000
				7,45,000		...	...	...	...
Total Balance of Capital				62,00,000					

General Balance Sheet—Schedule VIII

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
To Capital Account :		By Capital Account :	
Amount of total receipt		Amount of total expenses	
as per schedule III 62,00,000		as per schedule III 54,55,000	
To Sundry creditors		By Stores in hand :	
due to constructional		Fuel 45,000	
expenses		Sundry Mach.	
To Sundry creditors		room materials 10,000	
on open Accounts.....		-----	55,000
----- 1,70,000		By Sundry Debtors 3,50,000	
To Net Revenue Account		„ Investment (at cost) 9,00,000	
(Schedule V)		„ Cash at Banks } 7,90,000	
Balance at credit		„ Cash in hand }	
thereof 6,80,000			
To Depreciation Fund			
(Schedule VII) 5,00,000			

Total Rs. 75,50,000		Total Rs. 75,50,000	

Q. 8. On a certain work order a factory has spent Rs. 35,000 on materials ; Rs. 30,000 on wages ; Rs. 20,000 on factory overhead and Rs. 17,000 on office overhead.

On a similar work order subsequently taken up for execution, the expenditure on materials has been Rs. 60,000 and that on wages 50,000. The work order was partly executed at the date of annual closing of accounts (December 31, 1952) and works-in-progress consisted of materials Rs. 10,000 and wages Rs. 8,000. Assuming the incidence of factory overhead and office overhead to be at the same rates as before, draw up the necessary Cost Ledger Accounts for the second work order as at the date of the annual closing.

Ans.

Analysis of Cost

Materials ConsumedRs. 35000
 Direct WagesRs. 30000
 Chargeable ExpensesRs.

Prime Cost Rs. 65000

Factory overhead Rs. 20,000
 (66⅔ % of wages)

Works Cost Rs. 85000

Office overhead Rs. 17000
 (20% of Works Cost)

Total Cost Rs. 1,02,000

The entries for the second work order (incomplete) are furnished below :—

- (1) Work-in-progress A/c Dr. Rs. 10,000
 To Direct Materials A/c Rs. 10,000.
 (Being the amount of direct materials for incomplete work order charged to work in progress account).
- (2) Work-in-progress A/c Dr. Rs. 8000
 To Productive Wages A/c Rs. 8000.
 (Being the account of productive wages in respect of incomplete work order transferred to work-in-progress account).
- (3) Factory overhead on work in progress A/c Dr. Rs. 5333
 To Factory overhead A/c Rs. 5333.
 (Being the proportionate overhead expenses on incomplete work order taken into account).
- (4) Office overhead on Work-in-progress A/c Dr. Rs. 4667
 To Office overhead A/c Rs. 4667.
 (Being the proportionate office overhead charges on incomplete work order taken into account).
- (5) Direct Materials A/c Dr. Rs. 10,000
 Productive Wages A/c Dr. 8000
 Factory overhead A/c Dr. 5333
 Office overhead A/c Dr. 4667
 To Manufacturing A/c Rs. 28,000.
 (Being the transfer of credit balances in Nominal Accounts to Manufacturing Account).

Dr.	Direct Materials A/c	Cr.
	Rs.	Rs.
To Manufacturing Account (transferred)	10,000	By work-in-progress A/c 10,000

Dr.	Productive Wages A/c	Cr.
	Rs.	Rs.
To Manufacturing Account (transferred)	8000	By Work-in-progress A/c 8000

Dr.	Factory overhead A/c	Cr.
	Rs.	Rs.
To Manufacturing A/c (transferred)	5333	By Factory overhead on „ Work-in-progress A/c 5333

Dr.	Office overhead A/c	Cr.
	Rs.	Rs.
To Manufacturing A/c (transferred)	4667	By office overhead on Work-in-progress A/c 4667

Dr.		Factory Overhead on Work-in-progress A/c		Cr.	
		Rs.			Rs.
To Factory overhead A/c		5333		By balance c/d	5333

Dr.	Office overhead on Work-in-progress A/c		Cr.
	Rs.		Rs.
To office overhead A/c	4667	By Balance c/d	4667

1954

Q. 1. Head office invoiced to their Northern Branch during the year goods at Selling Price (being $33\frac{1}{3}\%$ added to cost) amounting to Rs. 74,000. The Credit Sales of the branch were Rs. 31,000 and Cash Sales, Rs. 17,000. The branch returns Rs. 2000, stock at selling price and had returns from customers, Rs. 1,000. The discounts allowed to customers by the branch amounted to Rs. 1,200. The branch remitted to Head Office Rs. 38,600, being the amount of cash sales and receipts from customers. The opening and closing stocks of the branch were, Rs. 15,000 (cost Rs. 11,250) and Rs. 39,000 (cost Rs. 29,250). The branch had debtors of Rs. 12,000 at the beginning and Rs. 19,200 at the end. Loss through pilferage as ascertained to be Rs. 1,000. (cost Rs. 750).

Write up the necessary accounts to record the above in the Head office books.

Ans. From the nature of the transactions recorded in the sum it appears that the Branch is of the type where the goods supplied by the Head office are sold for Cash as well as on credit. To incorporate the transactions relating to the Branch in H. O. books the following entries need be passed in the H. O. Books.

(1) Branch A/c Dr. Rs. 27000.

To Branch Stock A/c Rs. 15000

„ Branch Debtors A/c Rs. 12000.

(Being the transfer of opening Stock, opening Debtors etc. to the Branch Account).

(2) Difference in value of Branch Stock A/c Dr. Rs. 3750.

To Branch A/c Rs. 3750.

(Being the transfer of difference in value of Stock (op) to Branch Account).

(3) Branch Account Dr Rs. 74000

To Goods sent to Branch A/c Rs. 74000.

(Being the goods sent to Branch at a proforma invoice loading $33\frac{1}{3}\%$ to cost).

(4) Goods sent to Branch A/c Dr. Rs. 2000

To Branch A/c Rs. 2000.

(Being the return of goods from Branch)

(5) Remittance from Branch A/c Dr. Rs. 38600

To Branch A/c Rs. 38600.

(Remittances from Branch being taken into account).

On the date of closing :—

(6) Branch Stock A/c Dr. Rs. 39000

Branch Debtors A/c Dr. Rs. 19200

To Branch A/c Rs. 58,200.

(Branch stock and Debtors at close being taken into account).

(7) Goods sent to Branch A/c Dr. Rs. 18000.

To Branch A/c Rs. 18000.

(Being the difference in cost and invoice price of the goods (nett) supplied to Branch originally debited to Branch Account at the invoice value now adjusted).

(8) Branch A/c Dr. Rs. 9750.

To difference in value of Branch Stock A/c Rs. 9750.

(Being the adjustment of the difference in cost and invoice price of the closing stock at Branch).

[Since the branch is not of an independent type, no cognizance need be taken of items like Discount allowed by the Branch to its customers, Returns received by the Branch from the customers etc. Similarly since the Branch Account is to indicate the profit made by the Branch the loss due to pilferage need not be brought in the Branch Account. This item may constitute a separate item of loss in the H. O. Trading, Profit & Loss Account and thereby the 'Branch' Stock Account at close can be reduced to that effect].

The entries when recorded in the respective accounts will appear as follow :—

Dr.	Branch Account	Cr.	
	Rs.	Rs.	
To Branch Stock A/c	15000	By Difference in value of	
„ Branch Debtors A/c	12000	Branch Stock A/c	3750
„ Goods Sent A/c	74000	„ Goods Sent to Branch	
„ Difference in value		(Return) A/c	2000
of Stock A/c	9750	„ Remittances... A/c	38600
„ Balance (profit)		„ Branch Stock	
transferred to		(closing)	39000
P & L Account	9800	„ Branch Debtors	
		(closing)	19200
		„ Goods Sent.....w/o	18000
		(Difference in value)	

(3) Capital Reduction A/c Dr. Rs. 95000.

To Preliminary Expenses A/c Rs. 7252.

,, Profit & Loss A/c Rs. 11500.

,, Patents A/c Rs. 76250.

(Being the utilisation of fund available from reduction of Capital and Creditors claims in writing down the value of Patents and setting of entirely P & L Account balance, Preliminary Expenses).

Dr.		Realisation Account		Cr.
	Rs.			Rs.
To Sundry Assets A/c :-		By Sundry Creditors A/c		
Patents	43,750			1,05,000
Plant & Mach.	40,000	,, Ciko (1951) Ltd.		
Debtors	50,000		A/c 61,750	
Cash	1,250	(Purchase Consideration)		
Stock	30,000			
	1,65,000			
Cash	1,750			
(Liquidation Expenses)				
	<u>Rs. 1,66,750</u>			<u>1,66,750</u>

IN THE BOOKS OF CIKO (1951) LTD.

Journal Entries

- (1) Patents A/c Dr. Rs. 43,750
 Plant & Mach. A/c Dr. ,, 40,000
 Debtors A/c Dr. ,, 50,000
 Stock A/c Dr. ,, 30,000
 Cash Dr. ,, 1250
 Goodwill A/c Dr. ,, 1750

To Sundry Creditors A/c Rs. 1,05,000

, Ciko Ltd. A/c Rs. 61,750

(Being the assets & liabilities of Ciko Ltd. taken over incorporated in accounts).

(2) Ciko Ltd. A/c Dr. Rs. 60,000

To Share Capital A/c Rs. 60,000

(Being the issue of 12000 Shares of Rs. 10 each as Rs. 5 per Share paid up to M/s Ciko Ltd. Vendors in satisfaction of Consideration for purchase of their affairs vide Boards resolution.....).

(3) Sundry Creditors A/c Dr. Rs. 70,000

To 6% Debenture A/c Rs. 70,000.

(Being the issue of 6% Debenture to the Creditors in liquidation of their claim to the extent of two two-third of the total claim).

(4) Share call A/c Dr. Rs. 60,000

To Share Capital

Rs. 60,000.

(Being the money called @ Rs. 5 per Share on 12000 Shares of Rs. 10 each issued to the vendors).

Dr.	Cash Book	Cr.
	Rs.	Rs.
To Balance taken over	1,250	
„ Share Call A/c	60,000	
		By Ciko Ltd. A/c
		(Payment towards
		liquidation expenses)
		1,750
		„ Sundry creditors A/c
		(Payment of one-third of
		their claims)
		35,000
		„ Balance c/d
		24,500
	61,250	61,250

Balance Sheet (opening)

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Authorised Capital		Patents	43,750
20,000 Shares of	2,00,000	Plant & Machinery	40,000
Rs. 10 each.			
Issued & Subscribed Capital		Stock	30,000
12000 Shares of Rs. 10		Debtors	50,000
each issued to the Vendors	1,20,000	Cash	24,500
as Rs. 5 per Share paid-up		Goodwill	1,750
and subsequently fully			
Called up.			
6% Debentures.	70,000		
Total Rs.	1,90,000	Total Rs.	1,90,000

Q. 3. A, B & C are partners in X & Co. The firm controls three shops and each partner undertakes the management of one of these. C, in addition, manages a Repair Department, occupied entirely with work for the retail branches of the business.

The Profits of each shop are separately ascertainable and are subject to the charge for interest at $7\frac{1}{2}\%$ p.a. on loan and Partner's capital employed. The Profits of the Repair Department are in addition chargeable with a salary of Rs. 4,000 per annum in favour of C.

The profits, subject to interest and salary as stated, are apportionable thus :—

Repair Dept. : Allocable to shops in proportion of their respective shares in turnover of this Department.

Shops : Including transfer from Repair Department, 90 % to individual Partner having control of each respectively, 10 % to a General Pool.

General Pool : A one-half, B one-third, C one-sixth. For the year 1950, Repair Department shows profit, prior to charge interest and salary, of Rs. 8250. Turnover with shops has been A, Rs. 55,000 ; B, Rs. 30,000 ; C, Rs. 15,000. For the same period, profits of shops, prior to charge for interest are A, Rs. 64,000 ; B, Rs. 56,050 ; C, Rs. 42,000.

Interest has been paid on loans of Rs. 1,00,000 and the Partners are entitled to interest on their Capital A, Rs. 1,00,000, B, Rs. 70,000 ; C, Rs. 50,000. Loan and Partner's capital are employed by A, Rs. 1,40,000 ; B, Rs. 90,000 ; C, Rs. 60,000 Repair Department, Rs. 30,000.

Prepare for the year 1950, accounts showing collection interest and apportionment of profits.

Ans. Dr.	A's Shop A/c	Cr.
	Rs.	Rs.
To Interest on Loan (7½% on 40,000)	3000	By Profit 64000
„ Current A/c A (Interest on Capital)	7500	„ Repair Department (Eleven-twenty Shares) 1100
„ General Pool (10% transfer)	5460	
„ Balance 90% profit transferred to Current A/c 'A'	49140	
	Rs. 65,100	Rs. 65,100

Dr.	B's Shop A/c	Cr.
	Rs.	Rs.
To Interest on Loan (7% on 20,000)	1500	By Profit 56050
„ Current A/c B (Interest on Capital)	5250	„ Repair Department (⅙th. Share) 600
„ General Pools (10% transfer)	4990	
„ Balance 90% Profit transferred to Current A/c 'B'	49910	
	56,650	Rs. 56,650

Dr.	C's Shop A/c		Cr.
	Rs.		Rs.
To Interest on Loan (7½% on 10000)	750	By Profit	42000
„ Current A/c "C" (Interest on Capital)	3750	„ Repair Department (⅓th. Shares)	3000
„ General Pool (10% transfer)	3780		
„ Balance 90% Profit transferred to Current • A/c "C"	34020		
	<hr/>		
	Rs. 42,300		Rs. 42,300

Dr.	Repair Department A/c (Under Charge of A)	Cr.
	Rs.	Rs.
To Current A/c 'C'		By Profit
(Salary)	4000	8250
„ Interest on Loan		
(7½% on 30,000)	2250	
„ Balance allotted to :—		
• A's Shop A/c	1100	
(⅓th. share)		
B's Shop A/c (6/20th.		
share)	600	
C's Shop A/c (3/20th.		
share)	300	
	<hr/>	
	Rs. 8,250	Rs. 8,250

Dr.	Current A/c—A		Cr.
	Rs.		Rs.
To Balance c/d	63755	By Interest on Capital	7,500
		„ Shop Profit	49,140
		„ General Profit	7,115
	<u>Rs. 63,755</u>		<u>Rs. 63,755</u>

Dr.	Current A/c—B		Cr.
	Rs.		Rs.
To Balance c/d	54903	By Interest on Capital	5,250
		„ Shop Profit	44,910
		„ General Profit	4,743
	<hr/>		<hr/>
	Rs. 54,903		Rs. 54,903

Dr.	Current A/c—C	Cr.
	Rs.	Rs.
To Balance c/d	44,142	By Interest on Capital 3 750
		„ Shop Profit 34,020
		„ General Profit 2,372
		„ Salary (chargeable to Repair Dept) 4,000
	Rs. 44,142	Rs. 44,142

Dr.	General Pool	Cr.
	Rs.	Rs.
To Net Profit transferred to :—		By A's Shop A/c 5460
Current A/c A 7115		„ B's Shop A/c 4990
($\frac{1}{4}$ Share)		„ C's Shop A/c 3780
Current A/c B 4743		
($\frac{1}{8}$ Share)		
Current A/c C 2372		
($\frac{1}{8}$ Share)		
	Rs. 14230	Rs. 14230

N. B. In Calculating the partner's Share of Profit out of General Pool Fraction of a rupee has been avoided.

Q. 4. (a) What items are always understood as being included in the following :—(i) Prime Cost, (ii) Total Cost of Production, (iii) Selling Price ?

(b) What do you understand by the term "Cost of Unit Production ?" Give examples.

Ans. (a) Prime Cost refers to the basic cost of three factors viz. Materials, Productive labour and chargeable expenses comprising the article produced. It is prime cost since an article produced is primarily composed of these three factors. Materials comprising the Prime Cost are those materials which are directly consumed in the process of manufacture and of which the article produced is composed of. Productive labour relates to wage charges for the workmen directly employed in carrying the process of manufacture. Expenses which can be allocated directly to the manufacture of certain specific articles or carrying out specific jobs are termed as Chargeable Expenses. Cost of materials consumed, wages of labour directly involved in the manufacture and other expenses directly allocated go to make up the prime cost of any article produced.

Total Cost includes cost of all the elements comprising the article produced plus the proportionate amount of administrative.

expenses appropriately chargeable to the Cost of production. In the costing system this proportional allocation of administrative or office expenses is known as office on cost or Office overhead. The principle behind charging a portion of office expenses to the cost is that the expenses incurred in running the office has its bearing on running the works too. The activity of the office is not limited only to look after the affairs of Sale but to purchasing as well. Hence a portion of the total expenses of the office should come under cost of production. Total cost represents that cost of an article by selling at which neither any profit can be earned nor any loss is incurred since it includes the works cost plus a proportionate allocation of office expenses properly chargeable to the manufacture of that product. It is also known as Selling Cost or Cost of Sales.

Selling Price represents both Total Cost and Profit due to be earned by selling the article. Although normally selling price is that price at which an article is actually sold but in practice the Selling price is determined by loading an estimated percentage of profit on the total cost.

(b) The term 'Unit' in Cost refers to the smallest convenient number of an articles in term of which cost is to be ascertained. Utmost prudence is required in fixing up this unit of production. The unit will vary according to the nature of different classes of articles and commodities. To a manufacturer of pins a gross of pins will form a unit whereas in the case of a manufacturer of yarn the unit of production can very well be fixed as a pound of yarn. To a manufacturer of steel a ton will constitute the unit of production. In fixing up the unit of production great care should be taken to safeguard the economy in running the costing system. Now the term Cost of unit Production will mean cost of production per unit and this can be found out by dividing the total cost by total units produced.

Q. 5. The Revenue account of a Life Assurance Co. begins with "the opening Life Fund" and closes with a balance which is called "Life Fund at the close". Explain why this is so and how profits of Life Assurance Companies are determined.

Ans. Unlike other insurance business *viz.* Fire, Marine etc. the Revenue Account of a Life Assurance business does not indicate profit since the amount of premiums forming the main item of receipt cannot be entirely treated as Revenue receipt. A considerable portion of these premiums represents liability in respect of the policies already undertaken. Only such portion of premiums which does not represent liability in respect of policies undertaken can be regarded as revenue of the firm and the balance left thereout after setting off expenditure can be treated as profit. So invariably the

ascertainment of profit of a Life Assurance Department is dependent on ascertainment of liabilities in respect of policies in force on a particular date. This valuation of liabilities is done by Actuary after every three or five years. But so long this actuarial valuation of total liabilities is not done no credit can be taken as profit out of the Revenue Account and thus the Revenue Account for the intervening period of two actuarial valuations is to indicate the surplus of premiums over expenses. The balance indicated by a Revenue Account of a Life Department is called Life Assurance Fund and is carried forward to next year's revenue account. Life Assurance Fund representing the balance of Revenue Account of the current year will form the opening item for the next year's Revenue Account and in this process a Revenue Account is to start with "Opening Life Fund" and to end with 'Life Fund at close'. This will repeat from year to year.

For obvious reason, as explained above, the excess of Revenue over expenditure can not be treated as net surplus and no credit can be taken as profit thereof unless the probable liabilities in respect of policies current on a particular date are ascertained. To ascertain the profit of a Life business we are to ascertain first the net liability of the Company under the various policies as at the date of valuation. Now by comparing this ascertained amount of liabilities with the balance in Life Fund representing accumulated excess of revenue over expenditure the net result of the Life Assurance business for a particular period may be arrived at. Any surplus of Life Fund over the ascertained amount of liabilities in respect of policies will be termed as 'surplus' available for distribution as profit whereas in the reversed position the difference will represent loss.

Q. 6. On 1st January, 1953, Garage Ltd. acquired a new Petrol Pump on Hire Purchase from Oil Co. Ltd., which agreed to supply the hire purchaser with Petrol at Rs. 2/12, a gallon, 4 as of which was the dealer's commission and was to be appropriated towards part payment of the Pump and interest at 5 per cent per annum on outstanding balances of the Purchase Price of the Pump at the end of each quarter. The Cash Price of the Pump was Rs. 1,500.

Petrol purchased from the Oil Co. Ltd., in the 4 quarters ended 31st December, 1953 was, 2000, 2400, 4000 and 1600 gallons.

Depreciation at the rate of 10 per cent per annum is to be written off the Pump.

Show the Ledger accounts for the four quarters ended 31st December, 1953 in the books of Garage Ltd.

Ans. Although only the working of Ledger Accounts has been required, the journal entries in respect of transactions of a particular quarter are given below to indicate the method of recording more elaborately. The entries will be as under :—

(1) Petrol Purchase A/c Dr. Rs. 5500.

To Oil Co. Ltd. A/c Rs. 5500.

(Being the purchase price of Petrol supplied at Rs. 2/12/- per gallon during the quarter Jan-March).

(2) Pump A/c Dr. Rs. 481·25 nP.

Interest A/c Dr. Rs. 18·75 nP.

To Petrol Purchase A/c Rs. 500.

(Being the portion of purchase price i. e. 4 as. per gallon on 2000 gallons representing payment of hire appropriated to respective accounts).

Ledger Accounts for the four quarters are shown below :

Dr. Petrol Purchase A/c		Cr.	
	Rs.		Rs.
March, 1953		March, 1953	
To Oil Co. Ltd. A/c	5500	By Pump A/c	481·25
(cost of 2000 gallon petrol).		„ Interest A/c	18·75
June		June	
To Oil Co. Ltd. A/c	6600	By Pump A/c	587·25
(cost of 2400 glls. petrol)		„ Interest A/c	12·75
Sept.		Sept.	
To Oil Co. Ltd. A/c	10437	By Pump A/c	431·50
(cost of 4000 gallons petrol)		„ Interest A/c	5·50
Dec.			
To Oil Co. Ltd. A/c	4000		1537
		31st. December	
		By Trading A/c	25000
		(transferred)	
	<u>26537</u>		<u>26537</u>

Dr. Oil Co. Ltd. A/c		Cr.	
	Rs.		Rs.
April, 1		March, 31.	
To Bank A/c	5500	By Petrol Purchase A/c	5500
	—		
July, 1		June, 30	
To Bank A/c	6600	By Petrol Purchase A/c	6600
	—		
Oct., 1		Sept., 30	
To Bank A/c	10437	By Petrol Purchase A/c	10437
	—		
Dec., 31		Dec., 31	
To Bank A/c	4000	By Petrol Purchase A/c	4000

Dr.	Pump Account	Cr.	
	Rs.	Rs.	
March, 31			
To Petrol Purchase A/c	481.25	By P & L A/c (Depreciation @ 10% on 1500).	150
June, 30		„ Balance c/d	1350
To Petrol Purchase A/c	587.25		
Sept., 30			
To Petrol Purchase A/c	431.50		
	<u>Rs. 1500.00</u>		<u>Rs. 1500.00</u>

Dr.	Interest A/c		Cr.
	Rs.		Rs.
To Petrol Purchase A/c (Qtly interest)	18.75	By P & L A/c (transferred)	3700
„ Petrol Purchase A/c (Qtly interest)	12.75		
„ Petrol Purchase A/c (Qtly interest)	5.50		
	<hr/>		<hr/>
	Rs. 37.00		Rs. 37.00

N. B. The figure for Purchase for the 3rd. quarter has been arrived at by applying two different rates *viz.* Rs. 2/12/- per gallon and Rs. 2.50 per gallon for 1748 gallons and 2252 gallons respectively.

Q. 7. The following are balances extracted from the books of a Company as at 31st December, 1953 :—

	Rs.
Stock on 1st April, 1952 .—	
Manufactured Goods	9,740
Raw Materials	3,000
Depreciation of Plant & Machinery	13,000
Discount allowed	3,740
Printing & Stationery	930
Purchases :—	
Manufactured Goods	12,740
Raw Materials	87,260
Debtors	21,740
Cash at Bank	1,710
Repairs to Machinery	2,500
Office Rent & Rates	6,500
Plant & Machinery	75,210
Coal	5,790
Carriage Inward	3,910
Office Salaries	9,400

Carriage Outward	...	2,330
General Expenses	...	3,170
Factory Rent	..	22,710
Cash in hand	...	570
Manufacturing wages	...	1,10,290
Travelling	...	2,790
Sales	...	2,29,420
Capital	..	77,820
Creditors	...	21,720

Stocks on 31st March, 1953, were :— (a) Manufactured Goods Rs. 27,940 ; (b) Raw materials Rs. 2000, Goods Manufactured are to be debited to the Sales Department at current market price *viz.* Rs. 2,71,500.

From the above information, prepare accounts in such form as to disclose :—

(a) Cost of raw materials consumed ; (b) Gross profit on manufacture ; (c) Cost of manufactured goods transferred to Sales Department ; (d) Gross profit on Sales ; and (e) Percentages of net profit to sales.

Ans.

Manufacturing Account (showing profit on manufacture)

Dr. for the year ended 31st. March, 1953.		Cr.	
Particulars	Amount	Particulars	Amount
To Opening Stock		By Trade Price of	
Materials 3,000		Finished Products	
Add Purchase of Raw		transferred to	
Materials 87,260		Trading Account 2,71,500	
90,260			
Less Closing Stock 2,000			
88,260.			
Cost of Raw materials			
consumed (a)			
To Coal 5,790			
„ Manufacturing wages 1,10,290			
„ Factory Rent 22,710			
„ Carriage Inwards 3,910			
„ Depreciation to			
Plant & Machinery 13,000			
„ Repairs to			
Plant & Machinery 2,500			
2,46,460			
Cost of Manufacture (b)			
To Profit on Manufacture trans-			
ferred to Profit and Loss			
Account 25,040			
Rs. 2,71,500		Rs. 2,71,500	

Trading Account
for the year ended 31st, March, 1953.

<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
To Opening Stock—		By Sales	2,99,420
Finished goods	9,740	„ Stock at	
„ Manufacturing Account :		close :—	
Transfer of Trade price		Finished Products	27,940
of articles manufactured	2,71,500		
„ Purchase—			
Finished goods	12,740		
„ Gross Profit being 11·2%			
nearly on Sales trans-			
ferred to P & L A/c	33,380		
	<hr/>		<hr/>
	Rs. 3,27,360		Rs. 3,27,360

Profit and Loss Account for the year ended.....

<i>Dr.</i>		<i>Cr.</i>	
<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
To Printing & Stationery	930	By Gross Profit from	
„ Office Salaries	9400	Trading Account	33380
„ Office Rents & Rates	6500	„ Profit on manufac-	
„ Carriage Outwards	2330	ture from Mfg.	
„ Discount allowed	3740	Account	25040
„ General Expenses	3170		
„ Travelling Expenses	2790		
„ Balance - Net Profit			
representing nearly			
10% on Sales	29560		
	<hr/>		<hr/>
	Rs. 58,420		Rs. 58,420

N. B. The item 'Carriage Inwards' has been assumed to have entirely been spent on Rawmaterials and the same has been charged to Manufacturing Account.

Q. 8. On January 10, 1940, a Company issued at per 25,000 6% Redeemable Preferences Shares of Rs. 10 each, to be redeemed at Rs. 12 per share on June 10, 1953. On January 1, 1942, 1,000 of the Preference Shares had been forfeited for non-payment of the last call of Rs. 2/8 per share ; 800 of these

forfeited shares were subsequently re-issued on January 30, 1950, as fully paid for Rs. 5 per share.

On June 30, 1953, the credit balance of the Profit and Loss Account available for dividend was Rs. 2,00,000. Also to provide part of the funds required for the purpose of the redemption, 15,000 Ordinary Shares of Rs. 10 each were issued and allotted at par to the public on June 30, 1953 in consideration of full payment in cash.

Show Cash Book entries and Ledger Accounts relating to the forfeiture of the Preference Shares and their re-issue, the issue of the Ordinary Shares and the Redemption of the Preference Shares.

Ans. 6% Redeemable Preference Share Capital A/c

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
June, 1941		July, 1940	
To Balance c/d	2,50,000	By Balance b/f	2,50,000
Jan. 1, 1942		July 1, 1941	
To Share forfeiture A/c	7,500	„ Balance b/f	2,50,000
„ Calls-in-arrear A/c	2,500		2,50,000
June 30			
To Balance c/d	2,40,000	July 1, '49	
	2,50,000	„ Balance b/f	2,40,000
		June 30	
June 30, 1950		„ Sundries	
To Balance c/d	2,48,000	(Re-issue of forfeited shares)	8,000
	2,48,000		2,48,000
June 30, 1953		July 1, '52	
To Sundry Preference shareholders' Account	2,48,000	„ Balance b/f	2,48,000
(transferred)			

Dr.		Cr.	
Cash Book (Bank column only)			
	Rs.		Rs.
June 30, '50		July 1, '49	
To Sundries	4,000	By Balance b/f	.....
(Re-issue of shares)			
		July 1, '52	
June 30, '53		„ Balance b/f	.....
„ Ordinary Share subscribers' A/c	1,50,000	June 30, '53	
		• Sundry Pref. shareholders' A/c	2,97,600

Dr.	Profit and Loss Appropriation A/c		Cr.
	Rs.		Rs.
June 30, '53		June 30, '53	
To Premium on Redemption of shares A/c	49,600	By Profit & Loss Account balance	2,00,000
„ Capital Redemption Fund	94,500		
„ Balance available for dividend	55,900		
	<u>2,00,000</u>		<u>2,00,000</u>

Dr.	Share Forfeiture A/c	Cr.	
	Rs.	Rs.	
June 30, '42		June, 1942	
To Balance c/d	7500	By 6% Redeemable Pref. share capital A/c	7500
Jan. 30, '50			
„ 6% Redeemable Pref. share capital A/c (Re-issue)	4000	July 1, '49	
June 30		„ Balance b/f	7500
„ Balance c/d	3500		
June 10, '53			
„ Balance transferred to capital Redemption Fund	3500	July 1, '52	
		„ Balance b/f	3500

Dr.		Premium on Redemption of Shares A/c	Cr.
		Rs.	Rs.
June 30, '53			June, '53
To Sundry Preference shareholders' A/c	49600	By Profit and Loss Appropriation A/c	49600
(transferred)	<u>49600</u>		<u>49600</u>

Dr.	Sundry Pref. Shareholders' A/c	Cr.	
	Rs.	Rs.	
June 30, '53		June 30, '53	
To Bank A/c	2,97,600	By 6% Redeemable	
(Being the amount		Preference Share	
paid on Redemption)		Capital A/c	2,48,000
		„ Premium A/c	49,600
	<hr/>		<hr/>
	2,97,600		2,97,600

Dr.	Ordinary Share Capital A/c		Cr.
	Rs.	By Ord. Share Appl. A/c	Rs.
June 30, '53		„ Ord. Share Allot. „	1,50,000
To Balance c/d	1,50,000	„ Ord. Share Calls „	
	<u>1,50,000</u>		<u>1,50,000</u>

Dr.	Capital Redemption Fund		Cr.
	Rs.		Rs.
June 30, '53		June 30, '53	
To Balance c/d	98000	By P & L	
		Appropriation A/c	94500
		„ Share Forfeiture A/c	3500
	<u>98000</u>		<u>98000</u>
		July 1, '53	
		„ Balance b/f	98000

Explanation :—(i) The amount of appropriation of Profit towards Capital Redemption Fund has been arrived at after deducting the amount available from new issue of shares as well as from appropriation of capital gain under the head "Share Forfeiture Account".

(ii) To start with the sum it has been assumed that no provision for Premium on redemption had been made at the time of issue of the Redeemable Preference Shares. Had this provision been made beforehand there would not have any occasion to charge the entire amount of Premium to the profit of the last year *i.e.* the year 1953 ; because in that case Loss on Issue and Redemption of Shares Account would have been raised and the same would have been charged proportionately to the Profits for the years for which the shares did run. Thus the balance available for dividend in the year 1953 would have been more by Rs. 49,600.

— — —

1955

Q. 1. (a) A trading concern has to deal with a large number of sales transactions annually and difficulties are often encountered in agreeing the Trial Balance at the close of the year on account of mispostings and other errors made in the Debtors, Personal Ledgers. Name and describe a method that may be adopted for facilitating the agreement of the Trial Balance. Explain if your device will form a part of the double entry book-keeping.

(b) The following information is obtained the books of the concern for the month ended March 31, 1955 :—

(i) Opening Balances at the beginning of the month—
A : Rs. 6,000 ; B : Rs. 9,000 ; C : Rs. 3,000 ; D : Rs. 5,000
P : Rs. 18,000 ; Q : Rs. 22,000.

(ii) Sales to—A : Rs. 30,000 ; B : Rs. 28,000 ; C : Rs. 45,000.
D : Rs. 37,000.

(iii) Payments received from—A : Rs. 29,000 ; B : Rs. 32,000 ; C : Rs. 40,000 ; D : Rs. 38,000 ; P : Rs. 15,000 ; Q : Rs. 18,000.

(iv) Cheques received from the following parties, included in (iii) above, dishonoured C : Rs. 2,000 ; P : Rs. 1,000.

(v) The following discounts were allowed—A : Rs. 100 ; D : Rs. 200.

Draw up the General Ledger Adjustment Account as it would appear in the Debtor's Ledger.

Ans. (a) To facilitate the agreement of trial balance and to avoid unnecessary trouble, the introduction of Self Balancing system is suggested whereby it will be possible to cast a separate trial balance of Debtors Accounts.

For details of the scheme please see answer to question 2 (a) of 1952, Page 71.

(b) In the Debtors Ledger.

Dr.		General Ledger Adjustment A/c		Cr.
	Rs.		Rs.	
To Debtors' Ledger Adj. A/c		By Balance b/f	63,000	
Cash	1,72,000	„ Total Debtors A/c (sales)	1,40,000	
Discount	300	„ Debtors Ledger adjustment A/c (cheque dishonoured)	3,000	
„ Balance c/d	33,700			
	<u>2,06,000</u>		<u>2,06,000</u>	
		„ Balance b/f	33,700	

Dr.	Debtor – A A/c		Cr.
	Rs.		Rs.
To Balance b/f	6000	By General Ledger	
„ General Ledger		Adjustment A/c	29,000
Adjustment A/c	30,000	(cheque received)	
(sales)		„ General Ledger	
		adjustment A/c	100
		(discount allowed)	
		„ Balance c/d	6900
	<hr/>		<hr/>
	36,000		36000
	<hr/>		
„ Balance b/f	6900		

Dr.	Debtor—B A/c		Cr.
	Rs.		Rs.
To Balance b/f	9000	By General Ledger	
„ General Ledger		Adjustment A/c	32000
Adjustment A/c	28000	(cheque received)	
(sales)		„ General Ledger	
		Adjustment A/c	Nil
		(discount)	
		„ Balance c/d	5000
	<hr/>		
	37000		
	<hr/>		
„ Balance b/f	5000		<hr/>
			37000

Dr.	Debtor—C A/c		Cr.
	Rs.		Rs.
To Balance b/f	3000	By General Ledger	
„ General Ledger		Adjustment A/c	40,000
Adjustment A/c	45000	(cheque received)	
(sales)		„ Balance c/d	10,000
„ General Ledger			
Adjustment A/c	2000		
(dishonoured cheque)			
.			
	<hr/>		<hr/>
	50,000		50,000
	<hr/>		<hr/>
„ Balance b/f	10,000		

Dr.	Debtor—D A/c		Cr.
	Rs.		Rs.
To Balance b/f	5000	By General Ledger	
„ General Ledger		Adjustment A/c	38000
Adjustment A/c	37000	(cheque received)	
		„ General Ledger	
		Adjustment A/c	200
		(Discount allowed)	
	42000	„ Balance c/d	3800
„ Balance b/f	3800		42000

Dr.	Debtor—P A/c		Cr.
	Rs.		Rs.
To Balance b/f	18000	By General Ledger	
„ General Ledger		Adjustment A/c	15000
Adjustment A/c	1000	(cheque received)	
(dishonoured cheque)		„ Balance c/d	4000
	<u>19000</u>		<u>19000</u>
„ Balance b/f	4000		

Dr.	Debtor—Q A/c		Cr.
	Rs.		Rs.
To Balance b/f	22000	By General Ledger	
		Adjustment A/c	18000
		(cheque received)	
		„ Balance c/d	4000
	<u>22000</u>		<u>22000</u>
„ Balance b/f	4000		

On a trial balance being cast the position will appear as under.

Trial Balance

Particulars	Dr. Amount	Cr. Amount
Debtor A	6900	
„ B	5000	
„ C	10000	
„ D	3800	
„ P	4000	
„ Q	4000	
General Ledger Adjustment A/c	...	38700
	33700	33700

Q. 2. (a) What is meant by "Goodwill" of a business? What are the factors usually taken into consideration in computing the valuation of Goodwill and what are the usual methods of its computation?

(b) What book-keeping entries should be made in the treatment of Goodwill in the following cases :—

(i) When a partner retires from business, there being no Goodwill Account existing in the books ;

(ii) When a limited company takes over a firm at a price considerably in excess of the net assets taken over ;

(iii) When a partnership is dissolved on account of repeated trading losses for the last few years and Goodwill stands at a considerable figure in the firm's books ?

Ans. (a) According to Lord Macnaghten "Goodwill is a thing very easy to describe, very difficult to define. It is the benefit of good name, reputation and connection of business merging into an attractive force which brings in customers." Precisely enough we may describe goodwill as an intangible asset arising out of superprofit earning capacity of a concern. The existence of goodwill of a firm distinguishes the same from others. If a firm being situated in a comparable advantageous position with others and doing the same nature of trade earns extra profit then there is some factor favourable in the firm for bringing more and more customers to that particular firm. This factor / factors creates goodwill.

Goodwill is composed of a variety of elements. The elements may differ from trade to trade. In a particular case Goodwill is due to situational advantage in other it is due to skill and personality of proprietors. Normal trend of profit also constitute an important factor for goodwill. Of the various factors which are counted in computing goodwill the items mentioned below are considered worth concentrating upon, (i) Capital Employed, (ii) Risks involved (iii) skill in management. (iv) Location, (v) chances of future competition and (vi) goodwill of competitive firms.

As goodwill arises of Super-profit earning capacity of a concern naturally its valuation is to be based on accumulation of superprofit, the super profit representing an excess of net income over the fair return on Capital outlay. Instead of going through such a complex process., Goodwill is generally valued as a few years' purchase of the average profit of the firm this average profit being calculated on the basis of profits for an agreed number of years preceeding. How many year's purchase of average profit will be the value of goodwill is a matter to be decided by the parties concerned.

Whatever may be the method of valuation of goodwill the fact is that the commercial value of goodwill is attached to a business in continuation. It has no meaning except in connection with a going concern. If a firm is dissolved the goodwill attaching to that withers away and no value can be attributed to that. Normally the value of goodwill is brought into account at the time of sale and purchase of a going concern.

(b) (i) In case the goodwill is intended to be brought in the account at the full value the entry will be :

Goodwill A/c Dr.
To Capital A/cs.

(Goodwill being raised and and credited to Partners capital Accounts in their profit sharing ratio).

In case where the goodwill is intended to be brought in the account only to the extent payable to the Retiring partner the entry will be :

Goodwill A/c Dr.
To Partner (Retiring)'s Capital A/c.

(Goodwill payable to the retiring partner being raised and credited to his account).

(ii) Where the purchase consideration is in excess of the net value of assets taken over the excess is to be considered as payment towards goodwill and will be brought into account by a journal entry as indicated below.

Goodwill A/c Dr.
To Business Purchase A/c.

(iii) In the case of dissolution of a firm having a standing figure of goodwill in the account the goodwill turns to be an item of capital loss and is written down to Partner's Capital Accounts the entry will be :

Partner's Capital A/cs Dr.
To Goodwill A/c.

Q. 3. On March 1, 1954, an Investor purchases Rs. 50,000 4% Debentures (face value Rs. 100 each) @Rs. 102 $\frac{1}{4}$, brokerage and other charges amounting to Rs. 256 $\frac{1}{4}$ interest being payable on June 1 and December 1. On August 1, 1954, he purchases further Rs. 60,000 such Debentures @ Rs. 102 $\frac{1}{2}$, brokerage and other charges amounting to Rs. 313 $\frac{1}{8}$ -.

Draw up the Investment Account for 1954. Ignore Income Tax and calculate Interest in months and to the nearest anna.

Ané.

*** Investment in 4% Debenture A/c**

(Interest payable in June and December)

Date	Particulars	Nominal value	Income	Capital value	Date	Particulars	Nominal value	Income	Capital value
March, 1	To Bank -- Cost of Rs. 50000 Debenture at a premium of Rs. 2 1/4/- per Deb. plus brokerage and other charges.				June, 1 1954	By Bank -- Interest for half year on Rs. 50,000 Debentures.		1000	
"	To Bank -- Interest to date of purchase.	50,000		51,381 4	Dec., 1 1954	By Bank -- Interest for half year on Rs. 1,10,000 Debentures.		2200	
Aug., 1	To Bank -- Cost of Rs. 60,000 Debentures at a premium of Rs. 2 1/2/- plus brokerage and other charges.		500		Dec., 31 1954	By Outstanding Interest A/c (Int. on Rs. 1,10,000 Debentures for 1 month)		366-11	
"	To Bank -- Interest to date of purchase.	60,000		61,588-8	"	By Loss on Investment.			632-4
Dec., 31 1954	To General Int. A/c (balance transferred)		400		"	" Balance c/d			1,12,337-8
			2666-11			" * (at Rs. 102/2/-)			
		1,10,000	3566-11	1,12,969-12			1,10,000	3566-11	1,12,969-12
Jan., 1 1955	To Balance b/f To outstanding Interest A/c	1,10,000		1,12,337-8					
			366 11						

* The rate represents market price ruling on 31-12-54 at which the investments are required to be shown.

Q. 4. (a) Write a short note on each of the following terms :

(i) Money at Call and Short Notice ; (ii) Cash Credit ; (iii) Banker's Clearing ; (iv) Rebate on Bills Discounted ; and (v) Letter of Credit.

(b) On which side of the Balance Sheet will the items in (i) and (iv) appear and why ?

Ans. (a) (i) Money at Call and short notice—for answer please see Q. 1 (a) (i) of 1953, page 86.

(ii) **Cash credit** represents loans, advances overdrafts etc. allowed by the banker to its customers. This is distinctly separate from Bank's investments and long term loans. The cash credit arises in accounts operated by the customers and it is always fluctuating. In short the sum total of debit balances in customer's accounts constitute this item.

(iii) **Banker's clearing** is a joint enterprise of all the Scheduled banks wherein they meet to sit together to set off their respective claims against the other. Each bank maintains an accounts (current) with the clearing House and any balance payable by one to other is met by cheque drawn on clearing House Account. The balance payable is determined by cancellation of each other's indebtedness and this process is known as "clearing".

(iv) **Rebate on Bills Discounted**—for answer please see Q. 1 (a) (iii) of 1953, page 86.

(v) **Letter of credit** is a form of guarantee executed by the bank in favour of parties in international trade. A foreign exporter may not be agreeable to send goods to an indenting firm of a foreign country unless he is sure of getting the bills accepted by the importers discounted readily. In order to make the exporters convinced of the prospect of discounting the importer's acceptances the importing firm will have to arrange with his banker who will held themselves liable to indemnify any loss that may arise in the matter of discounting their customer's acceptances. This arrangement is ensured through their branches or correspondents in foreign countries. Letter of credit is raised for a definite amount and the banker will not be responsible for any amount in excess of this limit of guarantee.

(b) **Money at Call and short notice**—This item represents short term investment and as such it will appear on the asset side on the Balance Sheet.

Rebate on Bills Discounted—represents an item of income received in advance and hence the same will appear on the liability side of a Balance Sheet.

[For detailed discussion in respect of both the items please see answer to Q. 1 (a) of 1953 at page 86].

Q. 5. (a) Under the Insurance Act what deposit is a life Assurance Company required to make and with whom?

(b) Life Assurance Companies invest their surplus funds largely in Government securities which are subject to fluctuations in value. How are these fluctuations provided for in accounts?

(c) Write short notes on (i) Loans on Life Interests and Reversions and (ii) Annuity Fund.

Ans. (a) Since after nationalisation of Insurance Business and a Corporation being formed this provision has ceased to operate. Previously however there was a provision for maintaining a reserve deposit with the Reserve Bank of India.

(b) Since investments are required to be shown in the Balance Sheet at lower of the two—cost and market value, every concern has got to adjust the fluctuation in the value of investment on the date of Balance Sheet. This adjustment may be carried through Revenue Account or Profit & Loss Account. As an alternative to this another system is also in force under which the fluctuation is provided for by building up an Investment Fluctuation Fund. This fund is created by bringing into account the difference between the cost and the market price of investments by making a charge on the Revenue. Under this method the Investment will appear at cost on the assets side while the Investment Fluctuation fund representing difference of the same with market price will appear on the liabilities side of the Balance Sheet.

(c) (i) **Loans of Life Interests and Reversions**—the item represents loans granted against life interest of the borrower in certain properties, assets or against the reversion of the borrower to certain properties and assets upon the death of the life tenant. This loan constitutes an item of the firm's properties and as such the same will appear on the assets side of a Balance Sheet.

(ii) **Annuity Fund**—this item represents liability of an Assurance Co. to its annuitants on a particular day. Just like Life Assurance fund, the net liability in respect of annuities already undertaken is ascertained by periodical actuarial valuation. In most cases no separate account is there for Annuity business of a life Assurance Co. In such cases no separate existence can be found of Annuity Fund.

Q. 6. A new company, C Ltd., is formed to take over to other existing companies, A Ltd., and B Ltd., the Balance Sheets of which at the date of the taking over were as follows :—

	A	B		A	B
	Rs.	Rs.		Rs.	Rs.
Capital			Freehold		
20,000 Ordinary			Premises	76,000	1,84,000
Shares of					

Rs. 10 each	2,00,000	Furniture and		
25,000 Ordinary		Fittings	12000	8,000
Shares of		Sundry		
Rs. 10 each	2,50,000	Debtors	60,000	40,000
Sundry		Stock in hand	20,000	24,000
Creditors	10,000	20,000 Profit & Loss		
Bills Payable	16,000	18,000 A/c. (Dr.)	78,000	62,000
Bank				
Overdraft	20,000	30,000		
	<u>2,46,000</u>	<u>3,18,000</u>	<u>2,46,000</u>	<u>318,000</u>

The Freehold Premises and the furniture and Fittings are taken over at book values ; Sundry Debtors at 25% and Stock at Rs. 6,000 and Rs. 8,000 respectively for A and B. The liabilities are to be paid in full by C Ltd.

The appropriate purchase considerations are to be satisfied by fully paid shares of C Ltd.

Give the necessary Journal entries in the books of the three companies to give effect to the above taking over and draw up the opening Balance Sheet of C Ltd., which is floated with a nominal capital of 1,00,000 Ordinary Shares of Rs. 10 each of which 30,000 shares, fully paid, are issued in the first instance to satisfy the purchase conditions as well as to arrange for working capital.

Ans. Purchase consideration in respect of 'A' Ltd. may be computed as under.

Total value of assets taken over (as agreed upon)

Freehold Premises	76000	
Furniture	12000	
Sundry Debtors	15000	
Stock in hand	6000	
	<u> </u>	1,09,000

*Less :—*Liabilities assumed by C. Ltd.

Sundry Creditors	1,0000	
Bills payable	16,000	
Bank overdraft	2,0000	
	<u> </u>	46,000

Purchase consideration Rs. 63,000

In the same method the Purchase consideration for taking over the affairs of B Ltd. can be computed as Rs. 1,42,000.

Journal Entries in the books of A Ltd.

(1) Realisation A/c Dr. Rs. 1,68,000.

	To Sundry Assets :	Rs. 1,68,000
Freehold premises		76,000
Furniture & Fittings		12,000
S. Debtors		60,000
Stock in trade		20,000.

(Sundry assets taken over by C. Ltd. being closed in accounts and transferred to Realisation Account).

(2) Sundry Liabilities : Dr. Rs. 46000

Sundry Creditors	10,000
Bills Payable	16,000
Bank Overdraft	20,000

To Realisation A/c Rs. 46000.

(Sundry liabilities taken over by C Ltd. being closed and transferred to Realisation account.)

(3) C Ltd. A/c Dr. Rs. 63,000

To Realisation A/c Rs. 63,000.

(Being the purchase consideration as agreed upon).

(4) Share Capital A/c Dr. Rs. 2,00,000

To Sundry shareholders' A/c Rs. 2,00,000.

(Being the transfer of share Capital to personal accounts of the shareholders).

(5) Sundry shareholders A/c Dr. Rs. 1,37,000

To Profit & Loss A/c	Rs. 78,000
To Realisation A/c	Rs. 59,000.

(Being the transfer of debit balance of P & L Account and loss on realisation to Sundry shareholders' account).

(6) Shares in C. Ltd. A/c Dr. Rs. 63,000

To C. Ltd. A/c Rs. 63,000.

(Being the shares in C. Ltd. issued in our favour in payment of the purchase consideration).

(7) Sundry shareholders' A/c Dr. Rs. 63,000

To Shares in C Ltd. A/c Rs. 63,000.

(Being the distribution of shares received from C Ltd.)

[Same set of journal entries will be required to close the accounts in B Ltd's books. It is considered needless to repeat the same entries. The only thing the students will be required to do is to replace the figures by corresponding figures of B Ltd's books.]

In the Books of C. Ltd.**Journal Entries :—**

(1) Freehold Premises A/c Dr.	Rs. 76,000
Furniture and Fixtures A/c Dr.	Rs. 12,000
Sundry Debtors A/c Dr.	Rs. 15,000
Stock in trade A/c Dr.	Rs. 6,000

To Sundry creditors A/c	Rs. 10,000
To Bills Payable A/c	Rs. 16,000
To Bank Overdraft A/c	Rs. 20,000
To A. Ltd. (Vendors) A/c	Rs. 63,000

(Being the incorporation in accounts of assets and liabilities of A. Ltd. taken over as per agreement)

(2) Freehold Premises A/c Dr.	Rs. 1,84,000
Furniture A/c Dr.	Rs. 8,000
S. Debtors A/c Dr.	Rs. 10,000
Stock-in-trade A/c Dr.	Rs. 8,000

To Sundry Creditors A/c	Rs. 20,000
To Bills Payable A/c	Rs. 18,000
To Bank Overdraft A/c	Rs. 30,000
To B. Ltd. (vendors) A/c	Rs. 1,42,000

(Being the incorporation in accounts of assets and liabilities of B Ltd. taken over as per agreement dated)

(3) A. Ltd. (vendors) A/c Dr.	Rs. 63,000
B. Ltd. (vendors) A/c Dr.	Rs. 1,42,000

To Ordinary Share Capital A/c Rs. 2,05,000.

(Being the issue of 6300 shares of Rs. 10 each to A. Ltd. and 14200 shares of Rs. 10 each to B. Ltd. in satisfaction of the consideration for taking over their affairs).

(4) Bank A/c Dr.	Rs. 95,000
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To Ordinary Share Capital A/c Rs. 95,000.

(Being the issue of 9500 ordinary shares to the public to raise the working Capital).

<i>Liabilities</i>	<i>Amount</i>	<i>Assets</i>	<i>Amount</i>
	<i>Rs.</i>		<i>Rs.</i>
Authorised Capital		Freehold Premises	
1,00,000 Ord. Shares of			2,60,000
Rs. 10 each	10,00,000	Furniture and	
		Fittings	20,000
Issued & Subscribed Capital		Sundry Debtors	25,000
20,500 Ord. Shares of		Stock-in-trade	14,000
Rs. 10 each issued as		Cash at Bank	45,000
fully paid to the venders	2,05,000		
9,500 Ord. Shares of Rs. 10			
each issued as fully paid up	95,000		
	3,00,000		
Sundry creditors	30,000		
Bills payable	34,000		
Total Rs.	3,64,000	Total Rs.	3,64,000

Q 7. Give a ruling for the Stores Ledger and enter the following transactions therein for the month ended February 28, 1955 :

1½" BRASS SCREWS

- February**
1. Opening Stock : 200 gross @ Rs. 5/10 per gross.
 3. Issued to Work Order No. 83, as per Requisition No. 183/2 : 2 gross.
 7. Issued to Work Order No. 26, as per Requisition No. 277/6 : 10 gross.
 11. Received back from Work Order No. 48, as per Credit Slip No. 78/10 : 2 gross valued at Rs. 5/10 per gross.
 17. Issued to Work Order No. 51, as per Requisition No. 301/16 : 50 gross.
 22. Issued to Work Order No. 26, as per Requisition No. 366/21 : 50 gross.
 25. Issued to Work Order No. 57, as per Requisition No. 419/24 : 20 gross.
 - Received from S. B. Roy & Co., Approved Suppliers, 220 gross, by their Challan No. 568/242, costing Rs. 5/7 per gross.
 28. Issued to Work Order No. 83, as per Requisition No. 434/26 : 85 gross.

Ans.

Stores Ledger

Description :—14 Brass Screw
Identity No. or Code

Maximum
Minimum

RECEIPT					ISSUE				Available Stock	Remarks
Date	Vendor or Work Order No.	Challan or Cr. Slip No.	Quantity	Rate	Value Rs.	Date	Requisition No.	Quantity	Rate	Value Rs.
Feb' 1	Opening Balance	—	200 gross	5/10	1125-0-0	Feb., 3	183/2	2 gross	5/10	11-4-0
						" 7	277/6-2	10 gross	5/10	56-4-0
13	48	78/10-2	2 gross	5/10	11-4-0	" 17	301/16-2	50 gross	5/10	281-4-0
" 25	M/s S. B. Roy & Co.	568/24-2	220 gross	5/ 7	1196-4-0	" 25	419/24-2	20 gross	5/10	112-8-0
						" 28	434/26-2	85 gross	5/10	478-2-0
1st. March	Opening Balance	—	35 gross 220 gross	5/10 5/ 7	1393-2-0					

N.B.—The requisition No. in the issue side will be indicative of the relative Work Order to which the same relates; otherwise the respective Work Order numbers may be shown in the remark column.

Q. 8. On December 31, 1954, the Trial Balance of the World Wide Trading Company, Ltd., having three Branches A, B and C, stood as follows :—

<i>Trial Balance</i>		Dr.	Cr.
1,00,000 Ordinary Shares of Rs. 10 each, fully paid			10,00,000
6% Debentures	...		6,00,000
Purchases A	...	25,00,000	
B	...	17,00,000	
C	...	23,00,000	
Wages— A	...	1,12,000	
B	...	1,08,000	
C	...	1,09,000	
Sales— A	...		30,00,000
B	...		20,00,000
C	...		27,00,000
Stock at January 1, 1954—A	...	2,00,000	
B	...	1,00,000	
C	...	3,00,000	
Land and Buildings	...	3,50,000	
Furniture and Fittings	...	24,000	
Advertisement	...	56,000	
Insurance	...	18,000	
Carriage Inward	...	14,000	
Carriage Outward	...	6,000	
Office Salaries	...	2,80,000	
Director's Fees	...	4,000	
Rates and Taxes	...	2,000	
Discounts Allowed	...		3,000
Discounts Received	...	1,000	
Cash in hand	...	17,000	
Cash at Bank	...	3,43,000	
Charges General	...	1,31,000	
Sundry Debtors	...	4,65,000	
Bills Receivable	...	2,80,000	
Sundry Creditors	...		83,000
Bills Payable	...		32,000
Profit & Loss A/c. (Cr.)	...		20,000
Debentures Interest to June 30, 1954	...	18,000	
		<u>94,38,000</u>	<u>94,38,000</u>

The Closing Stock as on December 31, 1954, was—
A : Rs. 1,80,000 ; B : Rs. 1,06,000 ; C : Rs. 2,90,000.

Write off Rs. 400 as Bad Debts and make a Reserve of 1% on Debtors Depreciate Land and Buildings by 2½% and Furniture and Fittings by 8%.

Allocating the unallocated expenses in the proportion of 2 : 1 : 2 over the three departments A, B and C respectively, draw up the Trading and Profit & Loss Account for the year ended December 31, 1954 and a Balance Sheet as at that date.

Balance Sheet as on 31 December, 1954

<i>Liabilities</i>	<i>Amount Rs.</i>	<i>Assets</i>	<i>Amount Rs.</i>
Authorised Capital			
... .. Shares of Rs. 10 each ... ..	...	Fixed Assets :	
Issued & Subscribed Capital		Land and Building	3,50,000
1,00,000 Ord. Shares of Rs. 10 each	...	<i>Less</i> Depreciation	8,750
6% Debentures.	10,00,000		3,41,250
	6,00,000	Furniture and Fittings	24,000
		<i>Less</i> Depreciation	1,920
			22,080
Current Liabilities :		Current Assets :	
Sundry Creditors	83,000	Stock in trade	5,76,000
Bills Payable	32,000	Bills Receivable	2,80,000
Debenture Interest (outstanding)	18,000	Sundry Debtors	4,65,000
		<i>Less</i> Bad debts w/o	400
			4,46,600
Profit & Loss Account balance b/f 20,000	3,06,284	<i>Less</i> Reserve for Bad and	
Add Current year's profit	2,86,284	Doubtful Debts	4,646
			4,59,954
		Cash and Bank balance	
		Cash in hand	17,000
		Cash at Bank	3,43,000
			3,60,000
Total Rs.	20,39,284	Total Rs.	20,39,284

1956

Q. 1. (a) Distinguish between Hire Purchase and Instalment Payment Purchase system, particularly with regard to (i) ownership over the assets and (ii) charge for depreciation of the assets.

(b) A manufacturer purchases a plant for Rs. 22,730 on the instalment payment system. The first payment is to be made at the time of taking delivery of the plant and the entire payment is to be completed by four more equal annual payments. The Vendor charges interest @ 5% per annum. Assuming depreciation to be charged @ 10% per annum on the reducing instalment plan, draw up the Plant Account and the Vendor's Account in the books of the manufacturer.

N. B. - The present value of Re. 1 invested at the beginning of each year for 5 years at 5% per annum is Rs. 4.5460.

All calculations are to be made in terms of months.

Ans. The term Hire Purchase relates to such transactions where the acquisition of an asset is effected through accumulated payments of hire for the same. Under this system goods are delivered to the hirer on his undertaking to pay by equal periodical instalments and till such time the last instalment is not paid the goods shall continue to be the property of the Seller. Since the payment under this system is spread over a considerable period the seller will charge a price in excess of that at which he would have disposed the goods on cash terms. As such the sum total of instalments will include the cash down price of the asset in question and interest at an agreed rate for the extended term of credit allowed. Naturally such portion of the instalment which can be appropriately considered as payment towards cashdown value of the asset will be debited to that asset account and the balance being charged to each year's revenue as charges for interest. To the vendor of the asset the cashdown price will constitute his sales and the amount received in excess of that will be treated as interest earned and credited to each year's revenue.

Akin to this there is another system known as Instalment Payment under which the price for the asset is paid in equal periodical instalments. This price is calculated after taking the amount of interest for the extension of Credit into consideration. Under this system the ownership in the goods is transferred on to the buyer as soon as the contract is effected. The buyer in this system will consider the unpaid price of the asset as his liability and the Vendor will also on the otherhand consider the buyer as his debtor. The Debtor's Account in the Vendor's books and the Vendor's Account in the Buyer's books will be posted with the total amount of instalments agreed upon, the difference of the same with the cash down price being

temporarily recorded as Interest suspense. The Interest suspense Account will be eliminated by writing down proportionate amount of interest to each year's revenue during the currency of the instalments. The chief difference of the method with the Hire Purchase system lies in the fact that under Instalment Method the ownership in the goods is transferred on the agreement being reached whereas under the Hire Purchase Method the ownership rests with the Seller until the last instalment is paid.

The element of depreciation will be there even though the asset is acquired on Hire Purchase or Instalment system. The asset in question does suffer the usual depreciation through wear and tear and the fact that the payment is outstanding can not hold up this wear and tear. As such the usual depreciation calculated on the basis of cash down price is annually taken into account. There is no distinction in the matter of charging depreciation under the two different methods of purchase *viz.* Hire Purchase and Instalment.

(b) The amount of each instalment may be worked as indicated below :—

According to the table supplied, the present value of Rs. 1 for 5 years at 5% p. a. is Rs. 4 5460 ; hence annuity for 4 546 is Re 1.

So, annuity for 22730 is $\frac{1 \times 22730}{4\ 546} = \text{Rs. } 5000.$

On the basis of this amount of annual contribution the postings in the respective accounts will be as shown below.

Dr.		Plant A/c		Cr.	
Particulars	Amount	Particulars	Amount		
1st year		1st year			
To Vendor's Account	22730	By Depreciation	2273		
		„ Balance c/d	20457		
	<u>22730</u>		<u>22730</u>		
2nd year		2nd year			
To Balance b/f	20457	By Depreciation	2046		
		„ Balance c/d	18411		
	<u>20457</u>		<u>20457</u>		
3rd year		3rd year			
To Balance b/f	18411	By Depreciation	1841		
		„ Balance c/d	16570		
	<u>18411</u>		<u>18411</u>		

4th year		4th year	
To Balance b/f	16570	By Depreciation	1657
		„ Balance c/d	14,913
	<u>16570</u>		<u>16570</u>
5th year		5th year	
To Balance b/f	14913	By Depreciation	1491
		„ Balance c/d	13422
	<u>14913</u>		<u>14913</u>

Interest Suspense A/c

1st year		1st year	
To Vendor's A/c	2270	By Balance c/d	2270
	<u>2270</u>		<u>2270</u>
2nd year		2nd year	
To Balance b/f	2270	By Profit & Loss A/c	887
		(Int. on 17,730)	
		„ Balance c/d	1383
	<u>2270</u>		<u>2270</u>
3rd year		3rd year	
To Balance b/f	1383	By Profit & Loss A/c	681
		(Interest on Rs. 13617)	702
	<u>1383</u>		<u>1383</u>

In this way the Interest Suspense Account will be written down to Profit & Loss Account.

Dr.		Vendors Account		Cr.
Particulars	Rs.	Particulars	Rs.	
1st year		1st year		
To Bank Account	5000	By Plant Account	22730	
(Cashdown)		„ Interest Suspense A/c	2270	
„ Bank Account	5000			
„ Balance c/d	15000			
	<u>25000</u>			<u>25000</u>
2nd year		2nd year		
To Bank Account	5000	By Balance b/d	15000	
„ Balance c/d	10000			
	<u>15000</u>			<u>15000</u>

3rd year		3rd year	
To Bank Account	5000	By Balance b/d	10,000
„ Balance c/d	5000		<u>10,000</u>
	<u>10,000</u>		
4th year		4th year	
To Bank Account	5000	By Balance b/d	5000
	<u>5000</u>		<u>5000</u>

For a better understanding of the working a specimen of Journal Entries is given below :

Plant Account Dr. Rs. 22730
 Interest Suspense A/c Dr. Rs. 2270
 To Vendors Account Rs. 25000.

(Being the Plant acquired on Instalment payment system).
 On payment being made : -

Vendor's Account Dr. Rs. 5000.
 To Bank Account Rs. 5000.

At the yearly closing :—

Profit & Loss Account Dr. Rs. 887
 To Interest Suspense A/c Rs. 887.

(Proportionate amount of interest being taken into account and charged to revenue).

Q 2. (a) Powers are usually not taken originally by a company for the issue of bonus shares. Detail the procedure to be adopted by a company for the issue of such shares.

(b) A company has accumulated large profits in the Reserve Account and the Board of Directors decide to utilise a part of this Reserve in order to make the capital properly representative of the financial position.

The Paid up Share Capital is Rs. 10,00,000 consisting of 90,000 Ordinary Shares of Rs. 10 each fully Paid up and 20,000 Ordinary Shares (face value Rs. 10 each), Rs. 5 per share paid up. At the date of allotment of the bonus shares the market value of the Ordinary Share stands at Rs 33. The Directors decide to issue one bonus share at the premium of Rs. 10 for every fully paid share held and to make the partly paid shares fully paid.

Give the necessary Journal entries.

Ans. Issue of Bonus Shares implies Capitalisation of Reserves and Revenues. A successful concern might have occasionally an accumulation of huge reserves created out of profit. When the accumulation reaches to an amount far in excess of the future exigency the management may desire to distribute a portion of it amongst the shareholders to compensate the loss of dividend which the shareholders suffered because of making

of the reserve out of annual profits in the past. Instead of payment of cash to the Shareholders new Shares are issued to the existing Shareholders for the amount of bonus payable to them. When shares are thus issued in paying the bonus, the issue of such shares is called issue of bonus shares. The proposal for distribution of accumulated Reserves as 'Bonus' and issue of Shares in lieu thereof can be given effect to only after the same has been passed in a General Meeting of the Shareholders.

Procedure :—

The Company may in a General Meeting resolve :—

(i) That it is desirable to capitalise any part of the amount for the time being standing to the credit of Reserve Account and or to the credit of Profit & Loss Account.

(ii) That the sum thus apportioned shall not be paid in cash but shall be appropriated towards paying up in full, unissued shares and Debentures of the company to be allotted as fully paid up to the members who would have been entitled to the accumulated profit if distributed as dividend and in the proportion which would have been in such case.

The Board of Management shall give effect to the resolutions as aforesaid and will make the necessary appropriation in accounts.

In the event the issue of bonus shares make the total capital exceed the limit of Authorised capital, necessary steps to raise the limit of Authorised capital will have to be taken first and thereafter to proceed with capitalisation of Reserves and issue of Bonus Shares in the manner discussed herein before.

[The authority for payment of bonus by issue of shares is provided for in Schedule I, Table 'A' subclause 2, clause 90 of the Act of 1956.]

(b)

Journal Entries

(1) General Reserve A/c Dr. Rs. 19,00,000

To Bonus to Shareholder's A/c Rs. 19,00,000.

(Being the amount out of the reserve declared payable as bonus to the existing Shareholders Vide Board's resolution dated.....in pursuance of decision taken in the General Meeting of the Shareholders.)

(2) Bonus to Shareholders A/c Dr. Rs. 18,00,000

To Ord. Share Capital A/c Rs. 9,00,000

„ Share Premium A/c Rs. 9,00,000.

(Being the utilisation of Bonus in paying the new issue of 90000 ordinary Shares of Rs. 10 each at a premium of Rs. 10 per Share.)

(3) Ord. Share Call A/c Dr. Rs. 1,00,000

To Ord. Share Capital A/c Rs. 1,00,000.

(Being the uncalled amount of Rs. 5/- per Share called up on 20000 ordinary Shares of Rs. 10 each).

(4) Bonus to Shareholders A/c Dr. Rs. 1,00,000

To Ord. Share Call A/c Rs. 1,00,000.

(Being the utilisation of Bonus in paying the uncalled portion of 20,000 Ord. Shares of Rs. 10 each now called up as per Boards resolution.....).

Q. 3. Ram and Rahim are in partnership sharing profits and losses in the ratio of 3 : 2. As Ram, on account of his advancing years, feels he cannot work as hard as before, the Chief Clerk of the firm, Ratan, is admitted as a partner with effect from January 1, 1955, and becomes entitled to one-tenth of the net profits and nothing else, the mutual ratio between Ram and Rahim remaining unaltered.

Before becoming a partner, Ratan was getting a salary of Rs. 50 per month together with a commission of 4% on the net profits after deducting his salary and the commission.

It is provided in the partnership deed that the share of Ratan's profits as a partner in excess of the amount to which he would have been entitled if he had continued as the Chief Clerk, should be taken out of Ram's share of profits.

The net profits for the year ended December 31, 1955 amounted to Rs. 1,10,000. Draw up the Ledger account for the net profits showing the distribution amongst the partners.

Ans. In order to give effect to the provisions of the Partnership Deed as reproduced in para 3 of the problem we are to ascertain first the amount to which Ratan would have been entitled in the event of had he not been admitted as a partner. The amount may be ascertained in the manner indicated below.

Profit	Rs. 1,10,000
Less—Salary of Ratan (Rs. 500 × 12)	6000
	<hr/>
	Rs. 1,04,000
Less—Ratan's Commission	
($\frac{4}{100+4} \times 1,04,000$)	4000
	<hr/>
Net Divisible Profit	Rs. 1,00,000

Ratan would have got in the capacity of the chief clerk Rs. 6000 + Rs. 4000 = Rs. 10,000. and thereafter the balance representing the net divisible profit was to be distributed between Ram and Rohim in the ratio of 3 : 2. Under the new arrangement Ratan is to have an amount equivalent to 1/10th of Rs. 1,10,000 which comes to Rs. 11000. Now Ram is to bear, out of his own share, Rs. 1000 towards Ratan's remuneration the amount being in excess of the stipulated figure of Rs. 10,000 to which Ratan would have normally been entitled. The distribution may be shown in the mannar shown below.

Dr.		Profit & Loss Appropriation A/c	Cr.	
		Rs.	Rs.	
To	Ram's Current A/c	-	By Net Profit	1,00,000
	($\frac{3}{5}$ share of 100000	59000		
	minus 1000 against			
	Ratan's Share)			
„	Ratan's Current A/c			
	($\frac{2}{5}$ share of 1,00,000)	40,000		
„	Ratan's Current A/c	11000		
	($\frac{1}{10}$ share of 1,10,000)			
		<u>Rs. 1,10,000</u>		<u>Rs. 1,10,000</u>

Q. 4. (i) What is meant by "Underwriting Commission"? Is the Underwriter required to make any formal application for shares and are such shares allotted to him in the ordinary way? In this connection, what is meant by an "application firm"? Is any commission allowed on such firm application?

(ii) Distinguish between Underwriting Commission and Commission on Placing Shares

(iii) Calcutta House Building Association, Ltd. issue 1,90,000 Ordinary Shares of Rs. 100 each. P, Q, R and S underwrite the entire issue in the proportions of 40%, 30%, 20% and 10% respectively in consideration of a commission of 4%. They also apply firm for shares as follows: P for 4,000 shares; Q for 3,000 shares; R for 2,000 shares and S for 1,000 shares. Besides the firm application by the Underwriters, the public apply for 60,000 shares.

Show the number of shares to be taken up by each of the underwriters, and also the commission received by each.

Ans. (i) When the issue of shares of a newly floated company is guaranteed by a person or a firm against valuable consideration the person or firm so guaranteeing the issue is called "underwriters" and the commission in consideration of which they undertake to guarantee the issue is termed as Underwriting Commission. While guaranteeing the applications for shares the underwriters assume the liability for taking up the residual shares not applied for by the Public. The written undertaking given by the underwriter to this effect serves the purpose of application and the Shares found due to be issued to them are issued in pursuance of the undertaking, in writing, given by the Underwriters.

Barring the question of taking up of the Shares un-applied for by the Public the underwriters may sometime apply for Shares of the Company of which they have been appointed underwriters. Such applications are called "application firm" and since these application are deemed to have been applied

for by them as an ordinary member—members of the Public, the underwriters earn the usual commission on the shares covered by such applications.

(ii) Commission for Placing Shares is earned by a broker who acts on behalf of the company and by his acts promotes applications for Shares. In such a case the broker does not assume the liability for having the full Shares applied for by the public.

Underwriting Commission is earned by an underwriter who guarantees the floating of shares of a company. He does not however act as an agent of the Company. The underwriter under the terms of the agreement holds himself liable to take up the residual shares not applied for by the public.

(iii) Total Issue underwritten 1,00,000 shares.

Shares applied for by the public	60 000 shares,
Shares covered by "Application firm"	10,000 shares

Total Shares applied for 70,000

The balance *i.e.* 30000 Shares remains unapplied for and those are to be taken up by the four underwriters in the ratio of 4 : 3 : 2 : 1.

The distribution of the unapplied for Shares in between the underwriters will be as follows. :

P will take up $\frac{4}{10}$ of 30,000 = 12,000 shares.

Q will take up $\frac{3}{10}$ of 30,000 = 9000 shares.

R will take up $\frac{2}{10}$ of 30,000 = 6000 shares.

S will take up $\frac{1}{10}$ of 30,000 = 3000 shares.

Therefore,

P will hold 12000 + 4000 (Appl. Firm) = 16000 shares.

Q will hold 9000 + 3000 (Appl. Firm) = 12000 shares.

R will hold 6000 + 2000 (Appl. Firm) = 8000 shares.

S will hold 3000 + 1000 (Appl. Firm) = 4000 shares.

Commission on Total Issue underwritten will calculate as follows :—

$$\text{Rs. } \frac{100,00,000 \times 4}{100} = \text{Rs. } 4,00,000.$$

This amount representing joint earning of the underwriters will be distributed amongst them in the same proportion in which they have underwritten the issue.

So,

$$P \text{ will get } \frac{40}{100} \times \text{Rs. } 4,00,000 = \text{Rs. } 1,60,000.$$

$$Q \text{ will get } \frac{30}{100} \times \text{Rs. } 4,00,000 = \text{Rs. } 1,20,000.$$

$$R \text{ will get } \frac{20}{100} \times \text{Rs. } 4,00,000 = \text{Rs. } 80,000.$$

$$S \text{ will get } \frac{10}{100} \times \text{Rs. } 4,00,000 = \text{Rs. } 40,000.$$

Q. 5. (a) What are the functions of a broker in connection with Marine Insurance? What are the respective money payments due to (i) the Insurer; (ii) the Insured and (iii) the Broker in this type of business?

(b) The India Jalajan Co., Ltd. insure their fleet of vessels for the year 1955 at a valuation of Rs. 50 lakhs. The terms settled are a premium of 6%, a brokerage of 5%, a discount of 10% and a charge of 1% for collection of claims.

The following claims arise during the year: (i) Damage to *Bhagirathi* agreed at Rs. 10,000; (ii) Total loss of *Godavari* agreed at Rs. 3,00,000.

The brokers collect the above claims and pay net proceeds to the company.

In the books of the company, show the Journal entries for the above transaction and also the Broker's Account in the Ledger.

Ans. (a) The function of a broker in Marine Insurance is in no way distinct from that of a broker in general sense. His duty is to bring the person or firm intending to have his vessel insured in contract with the Insurer or Lloyds underwriter as the case may be. This he does against consideration in the shape of brokerage calculated on the gross premium at certain pre-determined rate. The net premium arrived at after deducting the brokerage constitutes the receipt of the underwriters or Insurers. Discount calculated at a certain percentage on this net premium is receivable by the Insured.

IN THE BOOKS OF THE INDIA JALAJAN CO. LTD.

(b) **Journal**

(1) Insurance A/c Dr. Rs. 2,71,500
To Broker's A/c Rs. 2,71,500.

[Premium on Rs. 50,00,000 @ 6% less brokerage 5%, less discount of 10% as per the following calculations being payable:—

Adv. A/c—10

Gross Premium	Rs. 3,00,000
Less—Brokerage	
@ 5% on 3,00,000	Rs. 15,000
Net Premiums to underwriters	Rs. 2,85,000
Less—Discount allowed	
to insured @ 10%	Rs. 28500
	<u>Rs. 2,71,500]</u>
(2) Broker's A/c Dr.	Rs. 3,10,000
To Repairs A/c (Bhagirathi)	
„ S. S. Godavari A/c	3,10,000.
(Damage to S. S. Bhagirathi and total loss of S. S. Godavari as agreed and claimed from underwriters.)	
(3) Charges for Collection A/c Dr.	Rs. 3,100
To Broker's A/c	Rs. 3,100.
(Collection charge at 1% on settled claims being credited to Broker's Account).	
Dr.	Broker's Account
	Cr.
	Rs.
To Cash	2,71,500
„ Claim for damage	10,000
„ Claim for agreed	
amount of total loss	3,00,000
	<u>Rs. 5,81,500</u>
	Rs.
By Premiums	2,71,500
„ Collection Charges	3,100
„ Balance—	
Receivable in Cash	306900
	<u>Rs. 5,81,500</u>

Q. 6. (i) What are the drawbacks of overtime works ?

(ii) A manufacturer finds it worth his while to resort to overtime work rather than to employ additional workmen. In what circumstances is this likely ?

(iii) The machine hour rates for five machines are : I, Re. 1/10 ; II, Rs. 2/7 ; III, Re. 1/14 ; IV, Rs. 3/2 ; and V, Rs. 2/11.

The elements cost of two work-orders are :

	Materials	Wages	Chargeable Expenses
	Rs.	Rs.	Rs.
Work Order No. 1	10,000	8,000	200
Work Order No. 2	36,000	24,000	Nil

Machines are used are follows :—

	I	II	III	IV	V
	Machine	Machine	Machine	Machine	Machine
	(Hours)	(Hours)	(Hours)	(Hours)	(Hours)
Work Order No. 1	88	c	104	120	—
Work Order No. 2.	144	122	—	96	128.

If the Office Oncost charges be 60% of the Works Cost, calculate the total cost of sales in each case correct to the nearest rupee.

Ans. (i) Drawbacks in having the works done by overtime work may be summarised as below :

1. Normally the overtime wage-rate is higher than the usual rate ; hence in having overtime work a higher wage payments will be involved and this will increase the unit cost of production.

2. The working of the machine beyond the scheduled hour of work will lead to higher-rate wear and tear resulting in higher charge of depreciation. This will also go to increase the total cost of production.

3. Deterioration in the quality of the articles produced through overtime work is inevitable since the labourers engaged in the overtime work will by reason of his day's exertion not be in a position to give the required extent of attention and hence there will be deterioration in quality.

(ii) Even in the face of drawbacks of overtime work as enumerated above, a manufacturer may find it worth while to resort to overtime work under the following circumstances :—

(a) A sudden rise in the demand for the product does not leave any room for expansion of producing units ; hence the system of overtime work will have to be taken recourse to till such time the expansion becomes possible. Furthermore the attempt towards expansion at the sight of a temporary rise in demand may involve risk ; to avoid this risk the overtime system is taken recourse to so long the manufacturer is not confirmed of the rise in demand to be maintained.

(b) A manufactory which requires technically efficient labourers may not be capable of being readily expanded because of dearth of supply of such efficient labourers ; hence there will remain no other alternative but to have recourse to overtime-work.

(c) A manufactory requiring a very costly set of machinery cannot be expanded with the rise in demand for the articles manufactured through it because of outlay of fresh capital being involved for installation of a further set of machinery. In such cases overtime work is the only alternative which can be resorted to in order to cope with the increased demand.

(iii) Before proceeding with the preparation of the Statement of Total Cost we are to ascertain the overhead charges on account of machines utilised in carrying out the production. The incidence of Factory overhead in respect of different machines may be tabulated as under :—

Application of Machine-hour Rate in Factory Overhead

Work order • No.	Machine No. I Machine-hour Rate Rs. 1/10/-		Machine No. II Machine hour Rate Rs. 2/7/-		Machine No. III Machine-hour Rate Rs. 1/14/-		Machine No. IV Machine-hour Rate Rs. 3/2/-		Machine No. V Machine-hour Rate Rs. 2/11/-		Total cost
	Hrs.	Cost Rs.	Hrs.	Cost Rs.	Hrs.	Cost Rs.	Hrs.	Cost Rs.	Hrs.	Cost Rs.	
Work order I	88	143/-	—	—	104	195/-	120	375/-	—	—	713-0-0
Work order II	144	234/-	112	273/-	—	—	96	300/-	128	344/-	1151-0-0

Estimate of Total Cost for job No. I & II

	Work order No. 1	Work order No. 2
Materials	10,000	36,000
Wages	8,000	24,000
Chargeable Expenses	200	Nil
Prime Cost	18,200	60,000
Add : Works overhead (Machine-hour rate) as per table	713	1,151
Works Cost	18,913	61,151
Add : Office Oncost at 60% of Works Cost	11,348	36,692
Total Cost of Sales ...	30,261	97,843

Q. 7. Rabi, Shashi and Tarak are in partnership sharing profits and losses in the proportions of 6 : 5 : 4. They take out a joint life assurance policy for Rs. 2,00,000 so that funds required to pay off the dues of a partner on his death may be available without presenting any financial difficulty to the firm. The annual premium on the policy is Rs. 7,500 and this is treated as a business expense. Accounts are closed annually on December 31. Sashi died on 31st. March, 1956.

The partnership deed provides that the representatives of a deceased partner are entitled to (i) the deceased partner's capital as appearing in the last Balance Sheet ; (ii) interest on capital at 6% per annum to the date of his death ; (iii) his share of profits calculated till the date of his death on the average of the last three year's profits after inclusion of the policy premium as a business expense ; and (iv) share of goodwill calculated as two year's purchase on the average of the last three year's profits before inclusion of the policy premium at a business expense.

Shashi died on April 1, 1956. His drawings in 1952 amounted to Rs. 3,000. His Capital shown in the 1955 Balance Sheet was Rs 80,000.

The profits for the years 1953, 1954 and 1955, after inclusion of the policy premium as a business expense, amounted to Rs 65,000 ; Rs. 64,000 and Rs. 69,000 respectively. Sashi draw 3000/- up to the date of death.

Draw up Shashi's Account to show the amount due to his estate from the firm.

Ans. The deceased partner's Share of Profit and Share of Goodwill will calculate as follows :—

Profit : Net Profit for 1953	Rs. 65,000
" for 1954	Rs. 64,000
" for 1955	Rs. 69,000

Rs. 1,98,000

Average yearly profit is Rs. 66000 (Rs. 198000 ÷ 3).

Average Profit for 3 months is Rs. 16,500 (Rs. 66000 ÷ 4)

Sashi (deceased's) Share out of this is Rs. 5500(i)

(Rs. 16500 × $\frac{1}{3}$).

Profit (befor charging premium for Jt. Life Policy) for the 3 preceeding years were :—

1953	Rs. 72500	
1954	Rs. 71500	Average Profit is
1955	Rs. 76500	Rs. 73500

Total Rs. 2,20,500

Value of Goodwill will be Rs. 1,47,000 (Rs. 73500 × 2)

Sashi (deceased's) share of the goodwill is Rs. 49,000/...(ii)
(Rs. 147000 × $\frac{1}{3}$).

Dr.	Sashi's Account		Cr.
	Rs.		Rs.
To Sashi's Drawing's A/c	3000	By Capital Account	
„ Balance transferred		(balance b/f)	80,000
to Executor of Sashi		„ Interest on Capital	1200
(deceased) A/c	199366	@ 6% for 3 months).	
		„ „ will	49000
		($\frac{1}{3}$ share)	
		„ Jt. Life Policy Proceeds	
		($\frac{1}{3}$ share of 2,00,000)	66,666
		„ Profit & Loss A/c	5500
		($\frac{1}{3}$ share of Profit for 3	
		months calculated on the	
		basis of average profits	
		for the last 3 years).	
	202366		202366

Dr	Sashi's Executors Account		Cr.
	Rs.		Rs.
		By Sashi (deceased)'s A/c	
		(balance b/d)	1,99,366

Q. 8. Wholesale Traders, Ltd. deal in three departments of merchandise. The balance of the accounts at December 31, 1955, are as follows :—

Share Capital consisting of 50,000 Ordinary Shares of Rs. 10 each fully paid, Rs. 5,00,000 ; 6% Debentures, Rs. 3,00,000 ; Stock at January 1, 1955 : Dept. I—Rs. 70,000, Dept. II—Rs. 40,000 ; Dept. III—Rs. 60,000 ; Purchases : Dept. I—Rs. 14,10,000, Dept. II—Rs. 7,00,000, Dept. III—Rs. 10,50,000 ; Sales : Dept. I—Rs. 18,60,000 Dept. II—Rs. 9,15,000, Dept. III—Rs. 13,80,000 ; Wages : Dept. I—Rs. 2,80,000, Dept. II—Rs. 1,30,000, Dept. III—Rs. 2,10,000 ; Salaries Rs. 54,000 ; Sundry Debtors, Rs. 2,66,000 ; Bills Receivable Rs. 2,80,000 ; Sundry Creditors, Rs. 1,01,000 ; Bills Payable, Rs. 30,000 ; General Reserve, Rs. 145,000 ; Carriage, Rs. 12,600 ; Travelling Expenses, Rs. 6,300 ; Advertisement, Rs. 8,100 ; Printing and Stationery, Rs. 13,500 ; Goodwill, Rs. 90,000 ; Rates and Taxes, Rs. 1,800 ; Charges General, Rs. 36,900 ; Fleet of Transport Vehicles, Rs. 1,30,000 ; Land and Buildings, Rs. 1,80,000 ; Debenture Interest (Half-year up to June 30, 1955), Rs. 9,000 ; Furniture, Fittings and Fixtures, Rs. 72,000 ; Cash in hand and at Bank, Rs. 1,44,800 ; Balance of last year's Profit and Loss Account (Cr.), Rs. 24,000.

Rs. 2,000 of Sundry Debtors and Rs. 1,600 of Bills Receivable are bad and are to be written off, and a Reserve for Bad and Doubtful Debts @ $1\frac{1}{3}\%$ is to be made on Sundry Debtors.

Stock at December 31, 1955 amounted to : Dept. I—Rs. 60,000 ; Dept. II—Rs. 50,000 and Dept. III—Rs. 65,000.

Depreciate Land and Buildings by $2\frac{1}{2}\%$; Furniture, Fittings and Fixtures by 10% and Transport Vehicles by 20% .

Allocating the undivided expenses and charges in proportion to the total of the Opening Stock and Purchases for each department, except in the case of depreciation on Transport Vehicles which is to be allocated in the proportions of 2 : 1 : 1, prepare the departmental Profit and Loss Accounts for the year ended December 31, 1955 and a Balance Sheet as at that date.

Ans. No proportion in which direct expenses like salaries, rent etc. had been actually incurred are supplied ; hence we are to allocate all the expenses between the different departments in the ratio of cost of the goods sold by the departments. The costs of goods sold by three different departments are Rs. 14,20,000, Rs. 6,90,000 & Rs. 10,45,000. In allocating the expenses in the ratio of these figures we must not ignore the necessity of simplicity in the system of accounting and as such we are to find out a workable ratio. The ratio so found out may be 4 : 2 : 3 on the basis of which the expenses are to be apportioned. Allocating the expenses in the ascertained ratio of 4 : 2 : 3 the Departmental Trading Account and Profit & Loss Account are worked out below.

Trading Account (Departmental)
for the year ended 31. 12. 55

Cr.

Dr.

Particulars	Total Amount	Dept-I	Dept-II	Dept-III	Particulars	Total Amount	Dept-I	Dept-II	Dept-III
To Stock (opening)	1,70,000	70,000	40,000	60,000	By Sales	41,55,000	18,60,000	9,15,000	13,80,000
" Purchases	31,60,000	14,10,000	7,00,000	10,50,000	" Stock	1,75,000	60,000	50,000	65,000
" Wages	6,20,000	2,80,000	1,30,000	2,10,000	" (closing)				
To Gross Profit c/d	3,80,000	1,60,000	95,000	1,25,000					
	43,30,000	19,20,000	9,65,000	14,45,000		43,30,000	19,20,000	9,65,000	14,45,000

Dr. Profit & Loss Account (Departmental) for the year ended 31.12.55. Cr.

Particulars	Total Amount	Debit. I	Debit. II	Debit. III	Particulars	Total Amount	Debit. I	Debit. II	Debit. III
To Salaries	54000	24000	12000	18000	By Trading A/c	380000			
" Carriage	12600	5600	2800	4200	(Gross Profit				
" Travelling Expenses	6300	2800	1400	2100	b/d)				
" Advertisement	8100	3600	1800	2700					
" Rates and Taxes	1800	800	400	600					
" Charges General	36900	16400	8200	12300					
" Printing and Stationery	13500	6000	3000	4500					
" Debenture Interest 9000									
" Add Outstanding 9000									
" Baddebts - Debtors 2000	18000	8000	4000	6000					
" " - Bills 1600									
" Reserve for Baddebts	3600	1600	800	1200					
(1½% on 2,64,000)	3960	1760	880	1320					
" Depreciation on :									
Land and Building	4500	2000	1500	1500					
Furniture	7200	3200	2400	2400					
Transport Vehicles	26000	11555	7	8668					
" Net Profit carried to P & L									
" Appropriation A/c	183540	72685	51343	59512					
	3,80,000	1,60,000	95,000	1,25,000		3,80,000	1,60,000	95,000	1,25,000

SCHEDULE—VI

Balance Sheet of wholesale Traders Ltd. for the year ended on the 31st Dec. 1955

Figures for previous year	Liabilities	Figures for current year	Figures for previous year	Assets	Figures for current year
	Authorised Issued & Subscribed Capital			Fixed Assets :—	
	50,000 Ordinary shares of Rs. 10 each fully paid	5,00,000		Land & Building, Fleet of Transport vehicles, Furniture, Goodwill etc. as per valuation shown in the schedule annexed.	4,34,300
	Reserves & Surplus			Investments :	
	General Reserve	1,45,000		... ..	... ..
	Reserve for Bad & Doubtful debts	3,960		Current Assets :	
	P & L Account balance	24,000		Stock-in-trade	1,75,000
	Current year's profit	18,3540		Sundry Debtors	2,66,000
	Secured Loans			<i>Less</i> Baddebts	2,000
	6% Debentures	3,00,000			2,64,000
	Unsecured Loans			Loans & Advances :	4,39,000
	... ..	... ..		Bills of Exchange	2,80,000
	Current Liabilities & Provisions :			<i>Less</i> Bad w/o	1,600
	Acceptances	30,000			... ..
	Sundry Creditors	1,01,000		Cash & Bank Balances :	2,78,400
	Outstanding Interest on Debentures	9,000		Cash in hand	... ..
	Contingent Liabilities not provided for			Cash at Bank	... ..
	... ..	1,40,000			1,44,800
	Total Rs.	... ..		Total Rs.	12,96,500
		12,96,500			

Schedule of Fixed Assets

Assets	Value as per last Balance Sheet	Additions during the year	Disposal (if any) during the year	Depreciation provided for	Balance (figure at which these assets are to be shown)
1. Land and Building	1,80,000	Nil	Nil	4,500	1,75,500
2. Transport Vehicles	1,30,000	Nil	Nil	26,000	1,04,000
3. Furniture and Fittings	72,000	Nil	Nil	7,200	64,800
4. Goodwill	90,000	Nil	Nil	Nil	90,000
Total Rs.	4,72,000			37,700	4,34,300

1957

Q. 1. (a) What advantages are derived by a trader by keeping Ledgers under Self-balancing System ?

(b) Below are given particulars from the books of a trader for the month of January, 1956 :

	Rs.
January, 1, 1956 Opening Balance.	...30,000
„ 31, „ Total Sales for the month	...90,000
„ „ „ „ Sales Returns	... 500
„ „ „ „ Cash received from Debtors	...40,000
„ „ „ „ Bills Receivable	...15,000
„ „ „ „ Do. dishonoured	... 1,500
„ „ „ „ Discounts allowed to Debtors	... 400
„ „ „ „ Bad Debts	... 350
„ „ „ „ Transfers from another Ledger	750.

He wants to maintain his books on Self-balancing system. You are asked to Journalise the above transactions and raise relevant Adjustment accounts at the back of the Sales Ledger and the General Ledger.

Ans. (a) Advantages likely to be derived by keeping Ledgers under Self balancing system have been discussed in the answer to Q. 2 (a) of 1952 which may please be consulted.

(b) It is assumed that original recording in the books have already been done. Now what is required to do is to pass those entries which may make the ledger Self balancing. As such only the adjustment journals are given below.

Journal Entries

	Rs.	Rs.
(1) Sales Ledger Adjustment A/c Dr. 90,000.		
To General Ledger Adjustment A/c		90,000.
(Being the adjustment made in respect of Sales).		
(2) General Ledger Adjustment A/c Dr. 500		
To Sales Ledger Adjustment A/c		500.
(Being the adjustment made in respect of Sales returns).		
(3) General Ledger Adjustment A/c Dr. 40,000		
To Sales Ledger Adjustment A/c		40,000.
(Being the adjustment made in respect of amount received from the Debtors during the month).		

IN THE GENERAL LEDGER

Dr.	Sales Ledger Adjustment A/c	Cr.	
	Rs.	Rs.	
To Balance b/f	30,000	By General Ledger Adj. A/c 500	
„ General Ledger Adj.		„ General Ledger Adj.	
A/c 90,000		A/c 40,000	
„ General Ledger Adj.		(Amount received)	
A/c 1500		„ General Ledger Adj.	
(Dishonoured Bills)		(B/R received) A/c 15,000	
		„ General Ledger Adj.	
		A/c 400	
		„ Do — (Bad debts)	350
		„ Do — (transfer)	750
		By Balance c/d	64500
	<u>Rs. 1,21,500</u>		<u>Rs. 1,21,500</u>

Q. 2. Arun, Barun and Tarun are partners in a firm. Their Capital Accounts (fixed) as on 1st January, 1953 were as Arun, Rs. 30,000, Barun, Rs. 25,000 and Tarun, Rs. 20,000. As the partners could not agree among themselves they could not prepare their Profit and Loss Appropriation Account for three years. You have now been requested to give the correct distribution of profits and prepare the Current Accounts of the partners over the years. The undermentioned information is supplied :

1953 : (i) Net Trading Profit = Rs. 75,000. (ii) Drawings of Partners, Arun, Rs. 3,000, Barun, Rs. 2,000 and Tarun, Rs. 4,000. (iii) Profit and Loss sharing ratios ; Arun, $\frac{3}{5}$ ths, Barun, $\frac{1}{5}$ th and Tarun, $\frac{1}{5}$ th.

1954 : (i) Net Trading Profit = Rs. 100,000. (ii) Drawings of Partners, Arun, Rs. 2,000, Barun, Rs. 3,000 and Tarun, Rs. 4,000. (iii) Profit and Loss sharing ratios : Arun, $\frac{1}{5}$ th, Barun, $\frac{2}{5}$ ths and Tarun, $\frac{2}{5}$ ths.

1955 : (i) Net Trading Profit = Rs. 1,50,000. (ii) Drawings of Partners, Arun, Rs. 5,000, Barun, Rs. 4,000 and Tarun, Rs. 3,000. (iii) Profit and Loss sharing ratios : Arun, $\frac{2}{5}$ ths, Barun, $\frac{1}{5}$ th and Tarun, $\frac{2}{5}$ ths.

The Net Trading Profit each year was ascertained without taking into account :

(a) Interest on capitals of partners—to be allowed at 8% p. a. on the opening capitals as on 1st January, 1953.

(b) Interest on Drawings.

—to be charged at 10% p.a. and

(c) The salaries drawn by partners each year :

Arun	...	Rs. 6,000
Barun	...	Rs. 5,000
Tarun	...	Rs. 3,000

Ans. Dr. Profit & Loss Appropriation A/c for the three years ended on 31. 12. 55. Cr.

Date	Particulars	Amount			Date	Particulars	Amount		
		1953	1954	1955			1953	1954	1955
	To Partners' Salaries Arun Barun Tarun	6000 5000 3000	6000 5000 3000	6000 5000 3000		By Profit b/f " Interest on Drawings @ 10% debited to : Current A/c Arun Current A/c Barun Current A/c Tarun	75000 300 200 400	100000 200 300 400	150000 500 400 300
	To Interest on Capital @ 8% credited to Current A/c Arun " " Barun " " Tarun	2400 2000 1600	2400 2000 1600	2400 2000 1600					
	To Balance - Net Profit transferred to : Current A/c Arun ($\frac{2}{3}$ th., $\frac{1}{3}$ th. & $\frac{1}{3}$ th.) Current A/c Barun ($\frac{1}{3}$ th., $\frac{2}{3}$ th. & $\frac{1}{3}$ th.) Current A/c Tarun ($\frac{1}{3}$ th., $\frac{2}{3}$ th. & $\frac{1}{3}$ th.)	33540 11180 11180	16180 32360 32360	52480 26240 52480					
		75900	100900	151200		Rs.	75900	100900	151200

N.B.—Since Partnership Salaries, Interests etc. are to be accounted for through this account the term P & L Adjustment Account would have been more appropriate,

Dr.	Partners Current Accounts						Cr.	
Date	Particulars	Arun	Barun	Tarun	Particulars	Arun	Barun	Tarun
	To Drawings A/c— Account—1953 Account—1954 Account—1955	3000 2000 5090	2000 3000 4000	4000 4000 3000	By Interest on Capital @ 8% charged to P & L Appropriation. Account—1953 Account—1954 Account—1955	2400 2400 2400	2000 2000 2000	1600 1600 1600
	To Interest on Drawings @ 10% credited to P & L Appropriation A/c. Account—1953 Account—1954 Account—1955	300 200 500	200 300 400	400 400 300	By Share of Profit from P & L Appropriation. Account—1953 Account—1954 Account—1955	33540 16180 52480	11180 32360 26240	11180 32360 52480
13.12.55	To Balance c/d—	98400	65880	88720				
	Rs.	109400	75780	100820		109400	75780	100820

N.B.—It is assumed that the Partners drew salaries for the three years from credits given to certain other accounts. Partners' Drawing Accounts do not include drawings in respect of salaries.

Q. 3. (a) Tabulate the points of advantages of a Bill of Exchange.

(b) How do you distinguish between "Documentary Bill" and an "Accommodation Bill" ?

(c) Ananda owes Bibhuti Rs. 5,000. On 1st April, 1955, Bibhuti drew a bill on Ananda. The latter accepted the bill and returned it to the former. Bibhuti discounted the bill at 6% p.a. with Central Bank of India Ltd. On due date, after three months, the bill was dishonoured by Ananda. You are asked to give the Journal entries in the books of Bibhuti and Ananda recording the above transactions.

Ans. (a) The chief points of advantages of a Bill of Exchange may be summarised as indicated below.

1. The Bill of exchange is the mostly used form of credit instrument and as such it has kept down the use of cash to a great extent. This instrument can claim for adjustment of payment in respect of larger volume of the total trade transactions.

2. The bill of exchange facilitate foreign trade and limits the movement of currencies of different countries as between themselves to the minimum.

3. The bill of exchange safeguards the risk and serves as a document in foreign trade.

4. The holder of a bill of exchange who is for all purposes presumed to be the "holder in due course" enjoys the absolute right to sue in his own name without waiting for the assignor's taking action on the dishonour of the bill.

5. The characteristic importance of a bill of exchange is that it entails upon the holder of a bill (who is technically presumed to be the Holder in Due Course) a better title than that possessed by his assignor provided the assignee receives the bill in good faith and against valuable consideration. The defect or deficiency in title of his assignor will not in any way vitiate the assignee's right to sue in his own name.

(b) The distinction between an Accommodation Bill and a Documentary Bill is very clear from the definition of the two separate types.

When a bill of exchange is drawn and forwarded to drawer with same documents enclosed thereto and carries the definite direction of giving his acceptance as a token of receipt of the documents it is said to be a documentary bill. These bills are largely in vogue in foreign trade and usually the shipping documents are enclosed to the bills drawn on the foreign buyer. These bills are sent through banks who hand over the documents to the buyer only on his accepting the bill.

An Accommodation bill on the otherhand is a bill of exchange drawn in between two parties against no consideration except for purposes of raising funds for temporary period.

The issue of such bills does not arise in the course of ordinary business transactions.

(c) **Journal Entries in the books of Bibhuti**

April-1, 1956. Bills Receivable A/c Dr. Rs. 5000

To Anand's A/c Rs. 5000.

(Being the bill drawn on Anand is settlement of his account with us accepted by him).

„ „ Bank Account Dr.
Discount Account Dr.

To Bills Receivable Account Rs. 5000

(Anand's acceptance for 3 months being discounted).

On the dishonour of the bill :—

July-4, 1956. Anand's Account Dr. Rs. 5000

To Bills Receivable A/c Rs. 5000

(On the acceptance of Anand being dishonoured the entries in respect of the bill are reversed).

Journal Entries in the books of Ananda

April-1. Bibhuti's Account Dr. Rs. 5000

1956. To Bills Payable A/c Rs. 5000.

(A three month's bill drawn by Ananda being accepted in liquidation of our dues to him).

July-4 Bills payable A/c Dr. Rs. 5000

1956 To Bibhuti's A/c Rs. 5000.

(On not honouring our own acceptance).

Q 4. Madhu, Radhu and Hadu are partners in a firm, sharing profits and losses as Madhu, $\frac{3}{5}$ ths, Radhu, $\frac{1}{5}$ th and Hadu, $\frac{1}{5}$ th. Balance Sheet of the firm as on the 31st December, 1955, is as given below :

Balance Sheet

	Rs.	Rs.		Rs.	Rs.
Capital Accounts :			Plant ...		35,000
Madhu ...	25,000		Stock ...		15,000
Radhu ...	20,000		Debtors ...	25,000	
Hadu ...	15,000		Less B. D.	1,000	
	—	60,000		—	24,000
Creditors		15,000	Cash		1,000
		<u>75,000</u>			<u>75,000</u>

The partners agree to sell the business to a Private Limited Company which was incorporated with 50,000 shares of Rs. 10 each. The Purchasing Company agrees to take over the assets at their book values with an extra Rs. 5,000 as value of Goodwill. The creditors also are to be paid off by the new company. The

partners agree to take 50% of the Purchase Price in cash and the balance is to be paid by issue of fully paid shares. The remaining shares were issued to the public and were paid for in full with the exception of one shareholder holding 100 shares who paid the application and the allotment monies of Rs. 3 and Rs. 2 respectively but failed to pay the call monies (Rs. 3 on the 1st call and Rs. 2 on Final call). You are asked to close the books of the firm and give Journal entries and the opening Balance Sheet of the new company on completion of the above transactions.

Ans. The consideration for purchase may be worked out as follows.

Value of assets taken over	Rs. 76,000
<i>Less</i> —Liabilities assumed	Rs. 16,000
Creditors 15,000	
Reserve for B. Debts 1,000	

	Rs. 60,000
<i>Add</i> —Payment towards Good will	5,000

Purchase consideration	Rs. 65,000
------------------------	------------

Journal Entries in the books of Madhu, Radhu & Handu

- (1) Realisation A/c Dr. Rs. 76,000
 To Sundry Assets : Rs. 76,000.
 Plant 35,000
 Stock 15,000
 Debtors 25,000
 Cash 1,000
 (Being the transfer of assets).
- (2) Sundry Creditors A/c Dr. Rs. 15,000
 Reserve for Doubtful Debts A/c Dr. Rs. 1,000
 To Realisation A/c Rs. 16,000.
 (Being the transfer of sundry liabilities assumed by the new Co).
- (3) Co (Private) Ltd A/c Dr. Rs. 65,000
 To Realisation A/c Rs. 65,000.
 (Being the purchase consideration agreed upon).
- (4) Realisation A/c Dr. Rs. 5,000
 To Capital A/c Madhu Rs. 3,000
 To Capital A/c Radhu „ 1,000
 To Capital A/c Handu „ 1,000
 (Being the transfer of profit on realisation to partner's Capital accounts).

- (5) Cash Dr. Rs. 32,500
 Shares in New Co. A/c Dr. Rs. 32,500
 To Co. (Private) Ltd. A/c Rs. 65,000.
 (Being the consideration money received in Cash Rs. 32500
 and in 3250 Ord. Shares of Rs. 10 each).

- (6) Capital A/c Madhu Dr. Rs. 13540
 Capital A/c Radhu Dr. „ 10840
 Capital A/c Hadu Dr. „ 8120
 To Share in New Co A/c Rs. 32500.
 (Being the distribution of shares received from ...Co.(P) Ltd.
 in proportion of Capital contribution by the partners).

- (7) Capital A/c Madhu Dr. Rs. 14460
 Capital A/c Radhu Dr. Rs. 10160
 Capital A/c Handu Dr. Rs. 7880
 To Cash — 32500.
 (Being the distribution of Cash amongst the partners).

Entries in the books of..... Co. (Private) Ltd.

- (1) Plant Account Dr. Rs. 35,000
 Stock „ Dr. „ 15,000
 Debtors' „ Dr. „ 25,000
 Cash „ Dr. „ 1,000
 Goodwill „ Dr. „ 5,000
 To Sundry Creditors A/c Rs. 15,000
 „ Reserve for Baddebts A/c „ 1,000
 Vendors A/c „ 65,000.
 (Being the Vendor's assets and Liabilities, taken over,
 incorporated in accounts).
- (2) Bank A/c Dr. Rs. 1,40,250.
 To Share Application A/c Rs. 1,40,250.
 (Being the application money @ Rs. 3 per Share received
 in respect of 46750 shares of Rs. 10 each).
- (3) Share Application A/c Dr. Rs. 1,40,250
 To Share Capital A/c Rs. 1,40,250.
 (Being the transfer of application money to Capital).
- (4) Vendors' A/c Dr. Rs. 65,000
 To Share Capital A/c Rs. 32500
 „ Bank A/c Rs. 32500.
 (Vendors being paid off by issue of 3250 Shares of Rs. 10
 each and the balance by cash).
- (5) Share allotment A/c Dr. Rs. 93500
 To Share Capital Rs. 93500.
 (Allotment money being due).
- (6) Bank Account Dr. Rs. 93500
 To Share Allotment A/c Rs. 93500.
 (Allotment money being received).

- (7) Share 1st Call A/c Dr. Rs. 140250
 Share final Call A/c Dr. Rs. 93500
 To Share Capital A/c Rs. 233750.
 (1st Call money @ Rs. 3 and final Call money @ Rs. 2 per share being due on 46750 Shares of Rs. 10 each).
- (8) Bank Account Dr. Rs. 233250.
 To Share 1st. Call A/c Rs. 1,39,950
 ,, Share final Call A/c Rs. 93,300.
 (Call moneys being received).
- (9) Creditors A/c Dr. Rs. 15,000
 To Bank A/c Rs. 15,000.
 (Being the payment made to creditors as per agreement...).
- (10) Calls-in-Arrear A/c Dr. Rs. 500
 To Share First Call A/c Rs. 250
 ,, Share Final Call A/c Rs. 250.
 (Being the transfer of balances in Calls accounts to calls-in-arrear account).

Balance Sheet (opening)

<i>Liabilities</i>	<i>Amount</i>	<i>Assets</i>	<i>Amount</i>
	Rs.		Rs.
Authorised, Issued & Subscribed Capital		Plant	35,000
50,000 shares of Rs. 10 each		Stock	15,000
fully called up	5,00,000	Debtors	25,000
<i>Less :—</i>		<i>Less—Reserve</i>	1,000
Calls-in-arrear	500		24,000
	4,99,500	Goodwill	5,000
		Cash & Bank	
		• Balances	420500
Total Rs.	4,99,500	Total Rs.	4,99,500

Q. 5 (a) What do you understand by the term — 'Redeemable Preference Shares'? (b) Narrate briefly the provisions of the Companies Act regarding the issue and redemption of Redeemable Preference Shares. (c) Vanities Ltd., have part of their share capital in 3,000 5% Redeemable Preference shares of Rs. 100 each. According to the Articles of Association of the Company the shares are to be redeemed at a premium of 5%. The reserve of the Company shows a credit balance of Rs. 2,00,000. The directors decide to utilise 50% of the reserve in redeeming the shares and the balance is to be met from the proceeds of fresh issue of sufficient number of shares of Rs. 10 each. The premium is to be met from the year's Profit and Loss Appropriation Account.

You are required to give the Journal and the Ledger entries on completion of the above transactions.

Ans. When Preference Shares are issued on the condition that those are liable to be redeemed either at the option of the company or after the stipulated period according to terms of issue such shares are said to be Redeemable Preference Shares.

Subject to the provisions in the Articles a Company may issue Redeemable Preference Shares in terms of the authority contained in Section 80 of the Companies Act 1956. The statutory provisions for redemption of such shares are reproduced below.

(a) No Preference Shares shall be redeemed except out of profits of the Company which would have otherwise been available for dividend or out of the proceeds of a fresh issue of Shares made for the purposes of redemption.

(b) No such Shares shall be redeemed unless they are fully paid.

(c) The premium, if any, payable on redemption shall have been provided for out of the profits of the Company or out of the Company's Share Premium Account, before the Shares are redeemed.

The law also provides that in the case of such shares being redeemed otherwise than out of the proceeds of a fresh issue there shall be a **Capital Redemption Reserve fund** to the extent of the nominal value of Shares created out of the profits of the Company which would have otherwise been available for dividend. The balance standing to the credit of Capital Redemption Reserve fund may be applied for paying up unissued Shares of the Company to be issued to the existing Shareholders of the Company as fully paid 'Bonus' Shares.

VANITIES LTD

Journal Entries

(1) Reserve fund Dr. Rs. 1,00,000

To Capital Redemption A/c Rs. 1,00,000.

(Being the transfer of reserve to Capital Redemption fund as per resolution of the Board of Directors.....).

(2) Sundry Share Applicants A/c Dr. Rs. 2,00,000

To Share Capital A/c Rs. 2,00,000.

(Being the fresh issue of shares decided upon to meet the fund for redemption).

(3) Bank A/c Dr. Rs. 2,00,000

To Sundry Share Applicants' Rs. 2,00,000.

(Being the money received against the fresh issue of Share Capital).

- (4) 5% Redeemable Pref. Share Capital A/c Dr. Rs. 3,00,000
 Premium on Redemption of Shares A/c Dr. Rs. 15,000
 To Sundry 5% Redeemable Pref. Shareholders
 A/c Rs. 3,15,000.

(Being the transfer of redeemable Share Capital and premium on redemption to Shareholders Accounts).

- (5) Sundry 5% Redeemable Pref. Share holders' A/c
 Dr. Rs. 315000
 To Bank A/c Rs. 315000.

(Being the redemption of 5% Preference Shares made).

N. B. [It has been assumed that usual provision was made out of profits for Premium payable on redemption. In this connection it is also assumed that the amount in respect of this premium is to be met out of the Company's Cash & Bank balances.]

Dr.	5% Redeemable Pref. Share Capital A/c	Cr.	
	Rs.	Rs.	
To Sundry 5% Red. Preference Shareholders' A/c	3,00,000	By Balance b/f	3,00,000
• (Transferred)			

Dr.	Premium on Redemption of Share A/c	Cr.
	Rs.	Rs.
To Sundry 5% Red. Preference Shareholder's A/c (transferred)	15000	By Loss on Redemption of Share A/c 15000

Dr.	Capital Redemption Reserve Fund		Cr.
	Rs.		Rs.
To Balance c/d	1,00,000	By Reserve fund (being appropriation of 50% Reserve)	1,00,000

Dr.		Sundry 5% Redeemable Pref. Shareholders A/c		Cr.
	Rs.			Rs.
To Bank A/c	3,15,000	By 5% Redeemable Pref.		
		Share Capital A/c	3,00,000	
		„ Premium on redemption of		
		Preference Shares A/c	15000	
	<u>315000</u>			<u>315000</u>

Dr.	Share Capital (New issue) A/c		Cr.
	Rs.		Rs.
To Balance c/d	2,00,000	By Sundry Applicants' A/c	2,00,000
		*	
			2,00,000
	<u>2,00,000</u>		<u>2,00,000</u>

Dr.	Bank A/c		Cr.
	Rs.		Rs.
To Balance b/f	.....	By Sundry 5% Redeemable	
„ Sundry Share Applicants' A/c	2,00,000	Pref. Shareholders A/c	3,15,000

Dr.	Reserve Fund		Cr.
	Rs.		Rs.
To Capital Redemption Reserve Fund	1,00,000	By Balance b/f	2,00,000
„ Balance c/d	1,00,000		

* This figure is worked out on the assumption that the amount representing premium was met from the Company's normal cash balances. Had not the case been so the figure would have been Rs. 2,15,000 in 21500 Shares of Rs. 10 each.

Q. 6. (i) Ballygung Chemicals Ltd., has a branch office at Madras. On 1st April, 1955, the Head Office sent to Madras Branch goods costing Rs. 80,000 adding 20% to cost. On 30th June, 1955, it was found that the branch sold goods for cash amounting to Rs. 50,000. Goods of the value of Rs. 2,000 (invoice price) were returned to the Head Office. Cash received from Debtors as on the 30th June amounted to Rs. 50,000, discounts allowed to them amounted to Rs. 1,250. The opening and closing balances of Stock and Debtors of the Branch were : Stock, Rs. 50,000 and Rs. 75,000 respectively and Debtors, Rs. 75,000 and Rs. 50,000 respectively. The Cash Sales monies and collections from the Debtors were promptly sent to the Head Office by the branch. The expenses of the branch amounting to Rs. 3,000 were met by the Head Office by bank drafts.

You have been asked to record the above transactions in the books of the Head Office.

(ii) Write short notes on the various methods for the allocation of indirect expenses in Departmental Accounts in respect of :—(a) Rent. (b) Salaries and (c) Electric charges.

Ans. (i) Dr.	Branch Account	Cr.
		Rs
1st Jan. 1955		30th June
To Branch Stock A/c 50,000		By Goods Supplied to Branch
„ Branch Debtors A/c 75,000		(Return of goods) A/c 2000
1st April 1955		„ Bank A/c 50,000
To Goods Supplied to Branch		(Amount of Cash Sales)
A/c 96000		„ Bank A/c 50,000
„ Bank A/c 3000		(Remittance from
(Branch Expenses)		Branch Debtors)
30th June		„ Difference in value of
„ Difference in value of Stock		Stock (opening) A/c 8333
12500		„ Branch Stock A/c 75000
„ Balance Profit		(closing)
transferred to		„ Branch Debtors A/c 50,000
Gen. P & L A/c 14497		(closing)
		„ Goods Supplied to Branch
		A/c (Difference of cost and
		invoice value) 15664
	Rs. 2,50,997	Rs. 2,50,997

Dr.	Goods Supplied to Branch A/c	Cr.
	Rs.	Rs.
To Branch A/c 2,000		1st April
(Return of Goods)		By Branch A/c 96,000
„ Branch A/c 15664		
(Difference in value)		
„ Balance transferred		
to Trading Account 78336		
	96000	96,000

Dr.	Branch Debtors A/c	Cr.
	Rs.	Rs.
30th June		30th. June
To Branch A/c 50,000		By Balance c/d 50,000

Dr.	Branch Stock A/c	Cr.
	Rs.	Rs.
30th June		30th June
To Branch A/c 75,000		By Balance c/d 75,000

Dr.	Different in value of Branch Stock A/c		Cr.
	Rs.		Rs.
To Balance c/d	12,500	30th June	
		By Branch A/c	12 500

N B. The figures for Branch Stock are assumed to have been drawn on the basis of invoice value loaded with 20% on cost.

(ii) (a) Rent being normally a direct expenditure can be charged directly to the departments concerned on the basis of actual incurrence. The basis for calculation of incidence of rent on different departments is the proportion of floor space occupied by each department. This floor space ratio method may not always hold good. In the case of a departmental concern handling goods of high value in small bulk and goods of low value in high bulk as well the application of "floor space" method will be proved unsuccessful. In such cases the basis for allocation of rent will be the proportion of value of stock held by the departments.

(b) Salaries also being an item of direct expenses can be easily apportioned between the departments according to the extent of services rendered for the different departments. This will be possible only when the services of each employee can be measured department wise. In other cases however where this sort of measurement is not practicable the ratio of sales as between the different departments will constitute the basis for allocation of salary charges.

(c) Electric charges can be allocated on the basis of ratio of floor space occupied by different departments. Alike Rent, Electric charges can also be allocated on the basis of value of stock held by the different departments. The ratio of sales of different departments does also form a basis for allocation of Electric charges.

It is to be borne in mind that the necessity of maintaining simplicity in accounts should not be lost sight of in introducing the departmental accounts. In order to ensure this desired object the ratio of turnover or ratio of gross profit can be taken as a basis for allocation of both direct and indirect expenses where allocation of different expenses on different methods offers complexities in accounts.

Q. 7. (a) What are the main features of Double Account System of Book-keeping?

(b) The undermentioned particulars have been collected from the books of Nabagram Electric Corporation Ltd., for the year ended 31st December, 1954 :—

		Rs.
50,000 ordinary shares of Rs. 10 each	...	5,00,000
20,000 Preference Shares of Rs. 100 each	...	20,00,000
Expended on Purchase of Land	... ..	10,00,000
" " Buildings	... ..	8,05,000
" " Mains and Service Pipes	... ..	75,000
" " Distributing Stations	... ..	50,000
" " Meters	... ..	30,000
" " Transformers...	... ..	12,000
" " Public Lamps	... ..	20,000
" " Electrical Instruments	... ..	15,000
" " Parliamentary Expenses	... ..	5,000

During the year 1955, the following further expenses were incurred ; Buildings, Rs. 20,000, Meters, Rs. 10,000, Transformers, Rs. 12,000 and Public Lamps, Rs. 5,000.

You are asked to give the Capital Account for the year ended 31st December, 1955. Prepare also a General Balance Sheet as on the 31st December, 1955 out of imaginary figures.

(c) How are Depreciation and Repairs and Renewals dealt with under Double Account System ?

Ans. (a) The main feature of Double Account system lies in the fact that the assets and liabilities of the undertaking are shown under two distinct groups *e.g.* Capital Account and General Balance Sheet. The Capital Account contains the receipt and expenditure on Capital Account. Capital raised by issue of Shares, Stocks & Debentures etc. are shown on the credit side and the amounts spent for acquiring the different fixed assets required for working of the undertaking are shown on the debit side of the Capital Account. The difference between the two sides will represent working capital. The General Balance Sheet is however cast in the usual method showing only the floating assets and liabilities. The debit total and credit total of the capital Account are shown respectively on the asset side and liabilities side of the General Balance Sheet. Practically the balance of capital account will constitute the item of Capital in the General Balance Sheet.

The object of the Double Account system is to show in details the amount of capital utilised for purposes of acquiring fixed assets of the undertaking. This system is compulsory in the case of Railways, Electric Lighting Companies, Gas Supply Companies and similar other undertakings incorporated under special Acts of Parliament. Forms of Accounts, other books etc. required for the different types of undertakings are specified in the statute and Accounts are to be drawn in accordance with the statutory provisions applicable to the undertaking.

Nabagram Electric Supply Corporation Ltd.

SCHEDULE III—Capital Account for the year ended 31st December, 1955.

(Prescribed under the Indian Electricity Act, 1910.)

Capital Expenditure	Expenditure up to end of Previous year	Expended during the year	Total Expenditure to 31. 12. 55	Capital receipts	Received up to 31. 12. 54	Received during the year	Total receipts to 31. 12. 55
To Preliminary Expenses	5,000	—	5,000	By Ordinary Share Capital			
" Land including legal charges	10,00,000	—	10,00,000	50,000 Ordinary shares of Rs. 10 each	5,00,000	—	5,00,000
" Buildings	8,05,000	20,000	8,25,000	" Pref. Share Capital			
" Distributing Stations	50,000	—	50,000	20,000 Pref. shares of Rs. 100 each	20,00,000	—	20,00,000
" Mains & Service Pipes	75,000	—	75,000				
" Meters	30,000	10,000	40,000				
" Transformers	12,000	12,000	24,000				
" Electric Instruments	15,000	—	15,000				
" Public Lamps	20,000	5,000	25,000				
Total Expenditure Rs.	20,12,000	47,000	20,59,000				
Total Balance of Capital A/c			4,41,000	Total Rs.	25,00,000	—	25,00,000
Total Rs.			25,00,000				

Q. 8. The following particulars have been taken out from the Costing Department of Shyambazar Engineering Co. Ltd., for the year ended 31st December, 1955 :—

			Rs.
Job No. 1.	Direct Materials	...	10,500
	Direct Wages	...	25,000
	Chargable Expenses	...	4,500
Job No. 2.	Direct Materials	...	15,000
	Direct Wages	...	20,000
	Chargable Expenses	...	5,000

The works on cost is 80% of Direct Wages and Office and Administrative on cost is 40% of works cost.

You are asked to find the prices at which the two jobs will earn a profit of 25% on the cost of sales if the Selling and Distribution charges amount to 20% of the total of Works Cost and Administration expenses.

Estimate of Cost

Indicating Works cost, Total cost, Cost of Sales & Selling Price.

	Job No. I	Job No. II
Direct Materials	10,500	15,000
Direct Wages	25,000	20,000
Chargable Expenses	4,500	5,000
Prime Cost	40,000	40,000
Works Oncost—80% of Direct wages	20,000	16,000
Works Cost	60,000	56,000
(a) Office and Administrative Oncost—40% of Works Cost	24,000	22,400
+ <i>Works Cost 40% Exp.</i>	84,000	78,400
(b) Selling & Distribution charges—20% of Works Cost	16,800	15,680
<i>Total Cost w</i> Selling Cost	1,00,800	94,080
Estimated Profit of 25% on Cost of Sales	25,200	23,520
Selling Price Rs.	1,26,000	1,17,600

1958

Q. 1. The following is a list of balances in the Bombay branch books as on 31st December, 1955 :—

	Rs.
Head Office Account (Calcutta) ...	2,08,000
Sale	2,25,000
Purchases	2,61,604
Wages and Salaries	43,868
Freight and Insurance	26,608
General Expenses	31,248
Bank Balance (Dr)	12,641
Cash in hand	1,563
Debtors	1,06,462
Creditors	50,318

* Stocks at Bombay on 31st December, 1955 were valued at Rs. 1,48,500/-. Head office account balance includes Rs. 5,000/- being remittance-in-transit as on December 31, 1955.

Show the Journal entries incorporating the above items in the Book of the Calcutta Head Office.

Ans.

Journal Entries

(1) Branch Trading A/c Dr. Rs. 2,88,212

To Branch A/c Rs. 2,88,212.

[Being the incorporation of undermentioned items in the Branch Trading Account :—

Purchases	Rs. 261604
Freight	26608

o(2) Branch A/c Dr. Rs. 3,74,176

To Branch Trading A/c Rs. 3,74,176.

[Being the incorporation of undermentioned items in the Branch Trading Account :

Sales	2,25,676
Stock	1,48,500

(3) Branch Trading A/c Dr. Rs. 85964

To Branch Profit & Loss A/c Rs. 85964.

[Being the transfer of gross Profit to Branch Profit & Loss Account].

(4) Branch Profit & Loss A/c Dr. Rs. 75,116

To Branch A/c Rs. 75,116.

[Being the incorporation of undermentioned items in the Branch P & L Account :—

Wages & Salaries	Rs. 43868
General Expenses	31248

- (5) Branch Profit & Loss A/c Dr. Rs. 10,848
 To General Profit & Loss A/c Rs. 10,848.
 [Being the transfer of Branch's net profit to General P & L Account.]
- (6) Remittance in Transit A/c Dr. Rs. 5000
 To Branch A/c Rs. 5000.
 [Being the adjustment of remittance by Branch not received till 31st Dec. i.e. date of closing.]
- (7) Branch Cash Dr. 1563
 Branch Bank A/c Dr. 12641
 Branch Debtors A/c Dr. 106462
 To Branch Account Rs. 2,69,166.
 [Being the incorporation of Branch Assets in accounts.]
- (8) Branch Account Dr. Rs. 50318
 To Branch Creditors A/c Rs. 50,318.
 [Being the incorporation of Branch liabilities in accounts]

Note :- On the next opening day reverse entries will be passed in respect of Branch Assets and Branch Liabilities ; the difference between the two will be shown as balance in Branch Account. This balance will represent the Head office's dues from the Branch including the net profit as disclosed by the Branch Profit & Loss Account.

Q 2. On 1st January, 1950, Messrs X. Y. Z. & Co., took delivery, from Autocar Ltd., of 5 Motor Vans on a hire-purchase system, Rs. 2,000/- being paid on delivery and the balance in five instalments of Rs. 3,000/- each, payable annually on 31st. December. The Vendor Company charges 5% interest per annum on yearly balances. The cash-down value of the five vans was Rs. 15,000/-.

Show the Vendor's account, Interest account and the Motor Vans account in the books of X. Y. Z. & Co., for the five years. Provide depreciation at the rate of 20% on the diminishing balances. Adjust any difference in the fifth year's accounts.

Ans. Dr.		Autocar Ltd. (Vendors) A/c		Cr.
		Rs.		Rs.
1950			1950	
1st. Jan.	To Bank A/c	2,000	Jan. 1 By Motor Van A/c	2000
Dec. 31	„ Bank A/c	3,000	Dec. 31	
			By Motor Van A/c	2350
			„ Interest A/c	650
		<u>Rs. 5,000</u>		<u>Rs. 5000</u>

1951
Dec. 31 To Bank A/c 3,000
Rs. 3,000

1952
Dec. 31 To Bank A/c 3,000
Rs. 3,000

1953
Dec. 31 To Bank A/c 3,000
Rs. 3,000

1954
Dec. 31 To Bank A/c 3,000
Rs. 3,000

1951
Dec. 31
By Motor Van A/c 2468
„ Interest A/c 532
Rs. 3000

1952
Dec. 31
By Motor Van A/c 2591
„ Interest A/c 409
Rs. 3000

1953
Dec. 31
By Motor Van A/c 2720
„ Interest A/c 280
Rs. 3000

1954
Dec. 31
By Motor Van A/c 2871
„ Interest A/c 129
Rs. 3000

[The last year's debit to Motor Van has been found out by casting a balance between the total debit to Motor Van prior to 1954 and the Cash down value of the same. Any difference due to finding out the amount of debit to Motor Van has been adjusted in Interest for the last year].

A Specimen of 'Journal' to record the instalments and payments thereof in Vendor's Account is given below :

On Instalment being due :—
31st. Dec. '50
Motor Van A/c Dr. 2350
Interest A/c Dr. 650
To Vendor's A/c 3000

On payment being made :—
31st Dec. '50
Vendor's A/c Dr. 3000
To Bank A/c 3000

Dr.		Motor Van Account		Cr.	
	Rs.				Rs.
1950		1950, Dec. 31			
Jan. 1		By Depreciation A/c	3000		
To Autocar Ltd A/c	2000	(20% on 15000)			
Dec. 31		„ Balance c/d	1350.		
To Autocar Ltd. A/c	2350				
	<u>Rs. 4350</u>				<u>Rs. 4350</u>
1951, Jan. 1.		1951, Dec. 31,			
To Balance b/f	1350	By Depreciation A/c	2400		
Dec. 31.		(20% on 12000)			
To Autocar Ltd. A/c	2468	„ Balance c/d	1418.		
	<u>Rs. 3818</u>				
1952, Jan. 1		1952, Dec 31.			
To Balance b/f	1418	By Depreciation A/c	1920.		
„ Autocar Ltd. A/c	2591	(20% on 9600)			
	<u>Rs. 4009</u>	„ Balance c/d	2089		
					<u>Rs. 4009.</u>
1953, Jan. 1.		1953, Dec. 31			
To Balance b/f	2089	By Depreciation A/c	1536		
Dec. 31.		(20% on 7680)			
To Autocar Ltd. A/c	2720	„ Balance c/d	3273.		
	<u>Rs. 4809</u>				
					<u>Rs. 4809.</u>
1954, Jan. 1.		1954, Dec. 31.			
To Balance b/f	3273	By Depreciation A/c	1229		
Dec. 31.		(20% on 6144)			
To Autocar Ltd. A/c	2871	„ Balance c/d	4915		
	<u>Rs. 6144</u>				
					<u>Rs. 6144</u>
1955, Jan. 1.					
To Balance b/f	4915				

Note :— The Depreciation is brought into account by debiting Depreciation Account and crediting the account of the asset in question. The Depreciation Account is annually closed.

by transferring the same to Profit & Loss Account. Another opinion is also there according to which Depreciation of Assets acquired under Hire Purchase System is provided for by creating a Depreciation fund out of annual profits. Under this method the asset in question appears in the book value without any deduction for depreciation.

Dr.	Interest Account	Cr.	
	Rs.	Rs.	
1950, Dec. 31		'50, Dec. 31	
To Vendor's A/c (Int. @ 5% on 13000)	650	By P & L A/c (transferred)	650
	<hr/>		<hr/>
'51, Dec. 31		'51, Dec. 31	
To Vendor's A/c (Int. @ 5% on 10,650)	532	By P & L A/c (transferred)	532
	<hr/>		<hr/>
'52, Dec. 31		'52, Dec. 31	
To Vendor's A/c (Int. @ 5% on 8182)	409	By P & L A/c (transferred)	409
	<hr/>		<hr/>
'53, Dec. 31		'53, Dec. 31	
To Vendor's A/c (Int. @ 5% on 5591)	280	By P & L A/c (transferred)	280
	<hr/>		<hr/>
'54, Dec. 31		'54, Dec. 31	
To Vendor's A/c	129	By P & L A/c	129

N. B. The last year's interest represents the adjusted amount. The amount has been calculated by deducting the last instalment of cashdown value from the instalment money. Notes at the foot of Vendor's Account will indicate the basis of computing the figure for last instalment of cash down value of the motor cars in question.

Q. 3. Draw out a Pro-Forma Balance Sheet of a limited company under the Companies Act, 1956, inserting the main group heads ; use imaginary figures.

SCHEDULE—VI (Form of Balance Sheet)

Balance Sheet of Ltd. as at

Figures for previous year	LIABILITIES	Figures for the current year	ASSETS	Figures for the current year
0,000	I. Share Capital— Authorised Capital— 2,000 8% cumulative Pref. Shares of Rs. 100 each. 2,00,000		I. Fixed Assets	.....
	15,000 Ord. Shares of Rs. 100 each. 15,00,000	17,00,000	Goodwill	2,50,000
	Subscribed Capital— 2,000 8% cumulative Pref. Shares of Rs. 100 each 2,00,000		Land & Buildings (at cost)	35,000
0,000	10,000 Ord. Shares of Rs. 100 each fully called up 10,00,000		Less Total Depr.	6,00,000
0,000	1,000 Ord. Shares of Rs. 100 each issued as fully paid up by way of Bonus 1,00,000		Plant & Machinery (cost)	48,000
...	Payment 13,00,000		Total Depreciation	50,000
0,000	Less Calls-in-arrear (By Directors—5,000 " Others—Nil)	12,95,000	Furniture & Fixture (cost)	5,000
5,000	Share Premium	Nil	Addition during the year	55,000
5,000	Carried over—		Less Total Depreciation	8,000
			Motor Vans (at cost)	40,000
			Less Total Depreciation	3,250
			II. Investments	
			3% Government Securities (cost)	50,000
			(Market value 52,500)	
			4% Improvement Trust Loan	30,000
			Add Interest Accrued	80,000
				2,700
			Carried over—	82,700

BALANCE SHEET (continued)

(1)	(2)	(3)	(4)	(5)	(6)
	II. Reserves & Surplus			III. Current Assets	
95,000	Capital Reserve	95,000	10,000	Loose Tools (revalued)	7,500
90,000	General Reserve	1,15,000	6,87,000	Stock in Trade at lower of cost and market value	6,35,200
<u>1,85,000</u>		<u>2,10,000</u>		Sundry debtors	4,80,000
	Less P & L A/c balance (Dr.)	Nil		Less Reserve	12,000
2,00,000	III. Secured Loans	2,10,000	6,00,000	Debts considered good and secured	4,68,000
32,500	Debentures of Rs. 100 each			Debts considered good but not secured	2,80,000
	Bank Loans	62,500		Debts covered by Managing Directors' personal security	1,00,000
Nil	IV. Unsecured Loans	30,150	2,62,500	Debts due by Mng. directors	50,000
	Bank overdraft		30,150	Debts considered doubtful	28,000
48,000	V. Current Liabilities and Provisions			IV. Loans & Advances	12,000
1,18,000	Acceptances	60,000		Bills of Exchange	58,700
	Sundry creditors	1,13,000		Advances' with suppliers	55,000
	Accrued Interest	500		V. Cash & Bank Balances	
2,000	Outstanding Salary	1,200		Cash in hand	835
	Provision for taxation	75,000		Cash at Bank	4,315
65,000	Proposed Dividends	1,15,000		VI. Misc Expenses	
	Other liabilities viz. unclaimed Dividends	10,500		Preliminary Expenses	4,050
	VI. Contingent Liabilities			Discount of issue of debentures	5,800
16,000	Arrears of Dividend on cumulative shares	16,000	9,850		
		3,75,200			
				
	Total Rs.	21,72,850		Total Rs.	21,72,850

Q. 4. The Directors of a limited company possessing secret reserves, estimated at Rs. 8,00,000/-, decided to adjust the Balance Sheet figures so as to disclose the true position. Rs. 8,00,000/- is made up as follows :—

	Rs.
(i) Deduction of 10% from the value of stock ..	85,000
(ii) Profit on sale of investments utilised in reducing the value of the remaining investments below cost and market price.	1,00,000
(iii) Over-provision for taxation reserve ...	50,000
(iv) Under-valuation of Machinery, resulting from excessive provision for depreciation ...	5,50,000
(v) Motor vans written off ...	15,000

That portion of Rs. 8,00,000/- which represented loss of revenue in the past is to be placed in a Dividend Equalisation Account. The remainder is to be placed to a Pension Fund, an equivalent amount being specifically invested in Gilt-edged securities so as to provide for the payment of the pensions.

Give Journal entries to record these transactions.

Ans. In order to give effect to the arrangements, the undue deductions, excessive depreciations etc. are to be replenished by raising the values of the assets to the extent those had been written down. As a result, entries will have to be passed to appreciate the value of stock by Rs. 85,000 and that of Motor Vans by Rs. 15,000. The figures for Investment and that for Machinery will have to be increased by Rs. 1,00,000. and Rs. 5,50,000. Reserve for Taxation will also have to be debited by Rs. 50,000.

Journal Entries

(1)	Stock A/c Dr.	Rs.	85,000
	Investment A/c Dr.	„	1,00,000
	Reserve for Taxation A/c Dr.	„	50,000
	Machinery A/c Dr.	„	5,50,000
	Motor Vans A/c Dr.	„	15,000
	To Revaluation A/c		8,00,000.

(Excessive depreciation over provision etc. previously made now being adjusted)

(2)	Revaluation A/c Dr.	Rs. 8,00,000
	To Dividend Equalisation fund	Rs. 7,00,000
	„ Pension Fund	„ 1,00,000.
	(Fund available from revaluation now being appropriated)	

(3) Pension Fund Investment A/c Dr. Rs. 1,00,000

To Bank A/c Rs. 1,00,000.

(Amount equivalent to credit given to pension fund being invested).

Note :—The write back in Stock, Reserve for Taxation, Machinery, Motor Vans will constitute the figure for Dividend Equalisation Fund. The Pension Fund is to be created by the balance left in the Revaluation Account after making the provision for Dividend Equalisation Fund.

Q. 5. X, a merchant, found himself in financial difficulties and called a meeting of creditors, with the result that it was arranged for him to assign all his assets and liabilities to a Syndicate of 14 creditors, who undertook to advance Rs. 10,000/- each for the purpose of paying a composition of 50 nP. in the rupee and providing funds for the business to be carried on by the Syndicate. All the creditors agreed to the foregoing arrangements.

The position of the business according to the books as on 1st June, 1957 (the date of the assignment) was :—

BALANCE SHEET

<i>Liabilities</i>		<i>Assets</i>	
	Rs.		Rs.
Trade Creditors ...	2,28,960	Leasehold Premises ...	32,500
Creditors for		Furniture etc. ...	5,650
Expenses ...	1,330	Stock ...	43,250
		Debtors ...	21,600
		Cash in hand ...	350
		Cash at Bank ...	100
		Capital A/c.—X ...	1,26,840
	<hr/>		<hr/>
	Rs. 2,30,290		Rs. 2,30,290
	<hr/>		<hr/>

Furniture etc. were to be revalued at Rs. 3,000/-, Stock at Rs. 40,000/- and a reserve of Rs. 2,500/- was to be made in respect of bad debts.

• Show the Journal entries in the books of the Syndicate giving effect to the above and prepare the Balance Sheet as at 2nd, June, 1957.

It is subsequently discovered that out of the requisitioned materials, those valued at Rs. 200 were transferred to work order No. 97 and those valued at Rs. 100 were returned to Stores. Also, the wages booked included Rs. 100, being wages of two mechanics engaged in the repairing of Plant in the Production Shop.

Give the necessary Journal entries to show the above transactions and draw up the account of the Work Order No. 85 in the Cost Ledger.

Ans.

Journal Entries

- (1) Work order No. 85 A/c Dr. Rs. 10,080

To Materials Direct A/c	Rs. 6000
„ Wages Direct A/c	Rs. 4000
„ Chargeable Expenses A/c	Rs. 80.

(Being the amount of Direct materials supplied, direct wages paid and chargeable expenses incurred debited to the work order).

- (2) Work order No. 97 A/c Dr. Rs. 200

To order No. 85 A/c	Rs. 200.
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(Being the transfer of materials charged to workorder No. 85 to workorder No. 97).

- (3) Stores Return A/c Dr. Rs. 100

To Work Order No. 85 A/c	Rs. 100.
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(Being the return of materials to Stores).

- (4) Production shop A/c Dr. Rs. 100.

To Work Order No. 85 A/c	Rs. 100.
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(Being the transfer of wage charges to the extent of Rs. 100 to the repairing of plant in Production Shop).

- (5) Work order No. 85 A/c Dr, Rs. 2340

To Factory overhead A/c	Rs. 2340.
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(Being the amount of Factory overhead calculated at 60% of Direct wages charged to work order No. 85).

- (6) Work order No. 85 A/c Dr. Rs. 3005

To Selling, Distribution & Adm. Overhead A/c	Rs. 3005.
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(Being the amount of Selling, Distribution & Administrative overhead calculated at 25% of works charged to work order No. 85).

- (7) Completed work A/c Dr. Rs. 15025

To Work Order No. 85 A/c	Rs. 15025.
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(Workorder being completed),

Work Order No. 85

Dr.

Cr.

Date	Particulars	Total	Materials	Wages	Charge- able Ex- penses	Factory overhead	Adm overhead	Date	Particulars	Amount
	To Materials	6000	6000						By Transfer of mate- rials to Work order 97	200
	" Direct wages	4000		4000					" Transfer of mate- rials to stores	100
	" Chargeable Expenses	80			80				" Transfer of wages to repairs of Plant in Produc- tion Shop	100
	" Factory overhead (60% of Direct wages)	2340				2340			" Completed work A/c—transfer of Total Cost	15025
	" Selling Distri- bution & office overhead (25% of Works cost)	3005					3005			15425
		15425								

N.B.—Normally the net amount of direct materials is charged to a particular work order after duly accounting for the return of materials to stores or to some other work order. Since however the detection has been stated to have been made subsequently, the entries in respect of return of goods, transfer of wages etc. have been shown in the Job Ledger.

Q. 7. The Directors of a Company contemplate making an issue of Redeemable Preference Shares and ask your advice upon the following points :—

- (a) What procedure is to be followed for making the issue ?
- (b) How can redemption in due course, is to be effected ?
- (c) What effect will the redemption have on the Balance Sheet of the company ?

Draft a reply to the Directors covering the above points.

Ans.

To

The Directors

.....Co. Ltd.

Subj. : Issue and redemption of
Redeemable Preference Shares.

Dear Sirs,

In reply to your letter on the subject seeking advice regarding issue of redeemable Preference Shares attention is invited to Sec. 80 (1) of the Companies Act, 1956 which serves as an authority for issue of such shares. Under the provisions of Sec. 80 (1). The Indian Companies Act, 1956 a Company limited by Shares can issue redeemable Preference Shares provided the Articles of the Company do authorise such issue. The act also provides that even a Company not having the clear provisions in the Articles may also issue such shares provided the issue is covered by a special Resolution passed to that effect. Shares so issued are liable for redemption at the option of the Company and for the purposes of redemption it is provided that :

(a) No such shares shall be redeemed except out of profits of the firm or out of the proceeds of a fresh issue of such shares made for the purposes of redemption.

(b) No such shares are redeemable unless those are fully paid up.

(c) The premium payable on redemption shall have to be provided for beforehand out of the profits of the firm.

(d) Where any such share is redeemed except out of the proceeds of a fresh issue, a Capital Redemption Reserve Fund is created out of profits with a sum equal to the nominal amount of the Shares redeemed and such redemption will not be deemed to have reduced the authorised Capital of the Company.

Subsection (4) Section 80 of the Indian Companies Act, 1956 also lays down that :

Where shares are redeemed out of the proceeds of fresh issue of shares up to the nominal amount of the shares redeemed, the Share Capital of the Company shall not for the purposes of calculating fees payable U/s 601 of the Indian

Companies Act, 1956, be deemed to have been increased by the shares provided the old shares are redeemed within one month after the issue of the new Shares.

The redemption of shares will affect the Balance Sheet differently according to different methods of redemption. In the event of Shares being redeemed out of profits an account under the head "Capital Redemption Fund" on the liabilities side will be debited. Redemption under this method will cause reduction of assets mainly cash and Bank balances. On the other hand if the shares are redeemed out of the proceeds of fresh issue, the total asset will not record any reduction. Under this method Share Capital Account on the liability side will only bear the record of redemption and fresh issue of Shares and there will be no change in the total figure of liability side. Both Cash and Profit & Loss Account will however be affected with the consequential amount of premium, if any, payable on redemption. The amount received by way of issue of new shares will be utilised in paying off the old shares and thereby the total asset will remain as usual.

The General principle guiding the issue and redemption of shares have been enumerated above. If there is any special provision in the articles, those provisions may be accommodated while giving effect to the issue and redemption. Further suggestions in the matter will be offered on being specially heard to that effect.

Yours faithfully

.....Auditors.

[Since a draft reply from the side of the auditors has been required, the chief points have been incorporated in the body of the letter without summarising the same in a tabular form. The procedure for making such issue and the procedure for redemption have all been discussed in short in the first and second paras of the letter. The penultimate para of the letter deals with the effect of such redemption on Balance Sheet].

Q. 8. (a) State principles laid down in the case—*Gorner v.s. Murray*.

(b) Illustrate the principles by passing entries with imaginary figures.

(c) Criticise the decision in the above case from accountancy point of view.

Ans. The decision in the Case-Garner Vs. Murray gives a ruling on the question of adjustment of losses arising out of indebtedness of a partner in a firm. The principles laid down in *Garner Vs. Murray* case are that in the absence of any agreement to the contrary the unrealisable portion of a partner's debt to the firm is to be borne by the other solvent partner/partners in

proportion to their Capitals provided they bring in first cash to the extent of their respective share of loss on realisation.

Under this method the debit balance of insolvent partner's Capital Account is to be written off by making a charge to the solvent partners' Capital Accounts in the ratio of their Capitals. This method therefore imposes that in order to be covered by the provisions of the case, each partner should bring in cash equivalent to the amount of loss charged to his account. The main idea behind introduction of such provision is that with the help of this method we may bring down the Capital balance to that figure at which the same did stand prior to charging loss on realisation thereto.

(b) To explain the case in greater details the under mentioned illustration may be based upon.

Illustration :

A, B & C are partners sharing profits and losses equally. On the dissolution of the partnership the position stood as follows :—

<i>Liabilities</i>	Rs.	<i>Assets</i>	Rs.
A's Account	2000	Cash	2400
B's Account	1500	C's Account (overdrawn)	500
		Loss on Realisation	600
	3500		3500

Give the entries to show the amounts payable to A and B assuming that C becomes bankrupt and is unable to pay anything towards his debts.

Journal Entries

Capital A/c A Dr. Rs. 200

Capital A/c B Dr. „ 200

Capital A/c C Dr. „ 200

To Loss on Realisation A/c Rs. 600.

(Loss on realisation being distributed).

Bank A/c Dr. Rs. 400

To Capital A/c A Rs. 200

„ Capital A/c B Rs. 200.

(Being the amount brought in by A & B to make good their respective share of loss on realisation).

Capital A/c A Dr. Rs. 400

Capital A/c B Dr. „ 300

To Capital A/c 'C' Rs. 700.

(Being the deficiency in respect of C's account charged to capital accounts A and B in proportion to their capitals which are in the ratio of 4 : 3).

Capital A/c A Dr. Rs. 1600

Capital A/c B Dr. Rs. 1200

To Bank A/c Rs. 2800.

(Being the final payments to A and B).

(c) The justice in the decision has been subjected to severe criticism in the hands of the majority of professional Accountants. The system of making the solvent partners bring their respective share of loss on realisation in cash is considered unnecessary and superfluous. The only argument which can be put forward in favour of the system is that since the insolvent partner's deficiency is to be borne by the solvent partner's according to their respective Capitals as they stood prior to the charging of such loss, the bringing of cash to the extent of loss on realisation by the solvent partners will bring their Capitals to that figure at which those did appear prior to charging the loss on realisation to their accounts. But this difficulty we can very easily obviate if we maintain the partner's accounts on Fixed Capital Method. A very glaring inconsistency in this method is that a partner even if he is solvent will not be required to contribute towards the deficiency in another partner's Capital Account if it so happens that his (solvent partner) account shows debit balance for the time being as the distribution of deficiency is based on capital ratio. The rule prescribes two different rates for distribution of Trading Loss and Loss due to Capital deficiency of an insolvent partner and thereby the solvent partners are made to share the loss arising from the insolvency of a partner in a manner different from that at which they have been sharing profits and losses hereto before. Hence the introduction of this distinction in the matter of writing down loss on realisation and adjusting the loss due to insolvency of a partner is viewed as illogical.

One thing however cannot be ignored that writing down of loss due to insolvency of a partner is different from transferring annual trading profit or loss and hence it attracts some differential treatment no doubt. If this adjustment is considered as a part repayment of partner's Capitals evidently it will justify that the rate at which Capital had been contributed should be applied also in the matter of repayment thereof. From this point of view the application of Capital contribution ratio appears to have some justification. Simplicity of method is counted much in accounts. From the view point of simplicity the introduction of a method whereby the solvent partners are to bring cash to the extent of loss on realisation and to withdraw subsequent cash as refund of their Capital in the business cannot be encouraged.

